

Israeli Troops Will Not Halt Use of Deadly Force in Gaza

By Joanne Omang
Washington Post Staff Writer

WASHINGTON — Israel will continue to use lethal force against Palestinian rioters even as Israeli leaders push for international peace negotiations, two Israeli cabinet members said Sunday.

In separate broadcast interviews, Defense Minister Yitzhak Rabin and Foreign Minister Shimon Peres said that the past two weeks of violence in Israeli-occupied territories have damaged peace efforts, but not beyond hope.

"It's clear more than ever before that only a political, peaceful diplomatic settlement can provide the necessary answers," Mr. Peres said from Jerusalem on CBS-TV's "Face the Nation."

He said that the Israeli public is increasingly ready for negotiations even as it backs its troops. "The problem really for the time being," he said, "is not what will be the permanent settlement but what will be the first step."

Israeli troops have killed at least 21 protesters, wounded nearly 200 and arrested more than 1,000 since Dec. 9, when demonstrations began against Israel's occupation of the Gaza Strip and the West Bank of the Jordan River. The State Department last week urged Israel to maintain order "without the use of lethal force."

Meanwhile, in Jerusalem, diplomatic sources said that Washington has cautioned Israel against deporting large numbers of Palestinians allegedly involved in the violence. Mr. Rabin reportedly is considering the expulsion of 15 to 20 Palestinians from a list submitted by the military.

Mr. Rabin, who oversaw the anti-riot strategy, said from Tel Aviv that the troops at first had used rubber bullets, fire hoses and tear gas. "But whenever our soldiers are in danger, their life is in danger, they are allowed to open fire with live ammunition," he said.

adding, "We'll try to reduce it to the minimum."

Mr. Peres said he would describe the shooting as "an accident, not as a policy."

A State Department official said later that the position was "not unexpected," but that live ammunition is "not an answer to the problem either."

Samuel W. Lewis, a former U.S. ambassador to Israel, said on NBC-TV's "Meet the Press" that the State Department's criticism last week of the use of live ammunition "went right to the edge of being a mistake" because it evoked a nationalistic reaction.

The State Department official disagreed Sunday.

"We felt strongly that Israel is not really looking at the long-run situation in using live ammunition," he said. "They have international responsibilities as an occupying power, yes, but they have to look at the potential for peace."

"What we have to drive home to the minds, the hearts, the people of the Arab countries, their leaders, the Palestinians, is that by wars, threats of wars and terror, public disorder in a violent way, they'll achieve nothing," Mr. Rabin said.

He rejected any comparison of Israeli behavior with that of South Africa, on the grounds that Israel's occupation of the West Bank and Gaza is a 2-3 majority in the occupied territories, while the Pretoria government represents a tiny minority of the black nation.

But officials from the nations involved, especially the Americans, look at their armadas and ask some troubling questions:

Is there a way to perform the present limited escort operations with smaller forces? Conversely, how much larger would the forces have to be to make the waterway truly safe for shipping?

The questions are sure to be examined by the U.S. defense secretary, Frank C. Carlucci, when he visits the Gulf early next year.

tailed defense of conditions at military prisons in the West Bank. Trials have begun in five military courts for dozens of those detained.

Military officials said no final decision on deportations had been made. "The security forces will decide who to expel and at the moment we decide, we will do it," a senior army official said.

Israeli officials consider deportation their harshest weapon against Palestinian activists and contend that they use it sparingly. Since a tougher policy was initiated in 1985, the army says that 18 persons have been deported, while Palestinian groups put the figure at 44 because they count those expelled after a 1985 prisoner exchange.

Those expelled have a limited right to appeal, although Israel's high court has never reversed an expulsion order and the army often has evidence kept secret from the defense, citing security.

The United States has opposed deportations. Sources said that American diplomats had discussed the matter with Israeli officials and noted that international criticism of Israel, already high, would increase if deportations were ordered.



Afghan Refugees in Pakistan Remember an Anniversary

Afghan refugees in Karachi, Pakistan, chanted anti-Soviet slogans Sunday and prepared to hang an effigy of the Soviet leader, Mikhail S. Gorbachev, during a rally on the eighth anniversary of Moscow's intervention in the Afghan war. Protests were held in three nations, and the Afghan rebels and government both claimed victory in a battle at Khost. Page 2.

Fahd Says Iran Sows Discord

Tehran Reveals It Is Producing Chemical Arms

By Alan Cowell
New York Times Staff Writer

CAIRO — Saudi Arabia accused Iran on Sunday of seeking to export and impose its ideology on fellow Muslim nations in the Arab world to the detriment of the Arab campaign against Israel.

The accusation, made by King Fahd and reported by the official Saudi Press Agency, coincided with the unveiling of a new budget in Tehran that suggested no indication of willingness to lessen hostilities in the Gulf War with Iraq.

"The government is committed to allocate its full potential to the war effort," Prime Minister Mir Hussein Mousavi of Iran told the Majlis, or parliament, according to the official Iranian news agency.

The Iranian official was said to have described an array of weapons, including chemical weapons, produced in Iran. He also said that Tehran had begun shipping domestically produced ballistic missiles to the war front with Iraq.

His remarks strengthened speculation that Iran is planning a renewed push to break the stalemate of the past few months following its last major offensive almost a year ago.

Iran's posture has stirred alarm among many Arab countries, particularly the moderate sheikhdoms and kingdoms that face Tehran's revolutionary Shiite Muslim government across the Gulf.

The mounting worry has produced a wide consensus of opposition to Iran that was reflected in the Arab League meeting in November in Amman, Jordan.

The consensus effectively permitted Egypt, which previously was ostracized because of its 1979 peace accord with Israel, to re-enter the Arab fold as a demographic and military counterweight to Iran.

King Fahd, the Saudi monarch, sounded his warning about Iran's intentions at a summit meeting in Riyadh of moderate Gulf states grouped in the Gulf Cooperation Council. The council also includes Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates.

"We now face another danger from our brothers in faith, who aim their arrows at our chests instead of helping us to liberate holy Jerusalem and Arab Islamic land in Palestine controlled by Zionist colonialism," the Saudi news agency quoted the monarch as saying.

The Iranian war effort was designed "to expand and control and export ideas strange to our Arab Islamic society," he said, apparently referring to the form of Islamic ideology practiced in Iran.

The Iranian ideology is perceived as a threat by the Sunni Islamic Arab leaders of the Gulf. See IRAN, Page 6

U.S. Navy Is Still Seeking Right Formula in the Gulf

By John H. Cushman Jr.
New York Times Staff Writer

MANAMA, Bahrain — Five months after the United States began to expand its military operations in the Gulf, the U.S. Navy is continuing to grope for the formula that will let it escort ships through the war zone with maximum safety and minimum force.

With about 30 U.S. Navy ships in the region operating alongside at least as many naval vessels from West European nations and the Soviet Union, the Gulf and its nearby waters sometimes appear as choked with warships as a pond with water lilies.

But officials from the nations involved, especially the Americans, look at their armadas and ask some troubling questions:

Is there a way to perform the present limited escort operations with smaller forces? Conversely, how much larger would the forces have to be to make the waterway truly safe for shipping?

The questions are sure to be examined by the U.S. defense secretary, Frank C. Carlucci, when he visits the Gulf early next year.

Virtually every military officer, politician, diplomat and government official interviewed during a three-week visit to the region, which included time aboard six U.S. warships, said that the international involvement in the shipping war between Iran and Iraq had provided some protection to merchant ships.

Yet, the minesweepers, frigates, destroyers, cruisers, carriers and battleships of the U.S. force, which includes 20,000 sailors and marines, cannot be said to have imposed a meaningful peace on the Gulf.

On Tuesday, Iraq carried out a dramatic fighter strike, flying to the southernmost part of the Gulf to attack Larak Island, an important Iranian oil terminal, and damaging several tankers there. Within a day, Iran struck at an unescorted oil tanker near the Strait of Hormuz.

The pattern is almost monotonous, with an attack nearly every day in recent weeks. The situation might be even worse if international forces, especially the Americans, were not operating in the area.

A Bahraini government minister, summing up the situation facing U.S. forces in the region, used terms that reflected the views of the Reagan administration.

"The Americans must walk a fine line between deterring attacks and escalating the war," he said. "The navy is doing this very well."

But American, European and Arab officials expressed concern about the months ahead. Iran is building up forces for a land offensive. Iraq's air campaign is designed to help thwart such an offensive by undercutting Iran's economic strength.

Iran responds to attacks on its shipping by striking at vessels doing business with Kuwait and Saudi Arabia, Iraq's financial backers.

The officials fear growing fighting could spill over to affect the Americans and their allies, especially if U.S. forces stretch their rules of engagement to rescue crews of tankers not flying the American flag or to aid allied navy ships. One constraint on broadening their role is that they could end up

defending ships against Iraqi as well as Iranian attacks, or tilting explicitly toward Iraq.

On Thursday, a helicopter from the U.S. ship Elrod "encountered fire" from Iranian forces as it flew near a Panamanian-flagged ship that had reported by radio that Iranian speedboats were in the area, the Pentagon said. Neither the ship nor the helicopter was damaged, but the episode showed both how U.S. forces might be drawn into hostilities when no American-registered ships are in danger and how the U.S. presence helps deter attacks.

There have been repeated rumors, denied by the Pentagon in recent weeks, that American forces in the Gulf are sticking close enough to foreign merchant ships to provide unofficial escort.

Since July, the Kuwaiti oil tankers that registered as American ships to gain U.S. Navy protection have made 22 voyages up or down the Gulf. The only failures of the "protective arrangement" since July, when the super-tanker Bridgeton hit a mine in the first convoy, and in October, when another

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Klosk Hungary Eases Rules on Travel

BUDAPEST (Reuters) — Hungary announced more liberal travel regulations on Sunday and an amnesty for Hungarians holding hard currency illegally, the news agency MTI reported.

From Friday, Hungarian passports will be valid for five years, for all countries of the world, and for repeated trips of up to 90 days, extendable when appropriate.

Until now, Hungarians had to apply for an exit visa each time they wanted to travel to the West. In addition, Hungarians currently holding convertible currencies must bank it without fear of prosecution if they are willing to exchange one-quarter of it for forints.

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Strauss's Soviet Visit Points to Thaw

By Serge Schmemmann
New York Times Staff Writer

BONN — The visit of Franz Josef Strauss, the conservative leader of Bavaria, to Moscow this week and the announcement that the Soviet foreign minister will come to Bonn next month appear to herald a Soviet diplomatic initiative toward West Germany.

Many diplomats and politicians in Bonn believe that the moves could bring a state visit next year by Mikhail S. Gorbachev, the Soviet leader, reviving a relationship soured by the politics of arms control and stymied by a diplomatic blunder by Chancellor Helmut Kohl.

Mr. Strauss, who has combined tough anti-Communist rhetoric with active wooing of East bloc regimes, leaves Monday on a three-day visit to Moscow. West German newspapers close to his Christian Social Union said he probably will

meet with Mr. Gorbachev on Tuesday.

Mr. Strauss, 72, is expected to pilot his own twin-engine Cessna to Moscow, inevitably raising comparisons with the unauthorized flight May 25 into Red Square of a countryman, Matthias Rust, Mr. Rust, 19, is in a Soviet penal camp.

The invitation to Mr. Strauss, which came formally from the State Committee on Foreign Economic Relations, is a sign of the thawing relations between the two nations.

Civil War Tightens Grip on Angola

Destruction Leaves an Archipelago of Urban Strongholds

By James Brooke
New York Times Staff Writer

LUANDA, Angola — The Angolan civil war, 12 years old and with no end in sight, continues to stunt the growth of this potentially rich land.

The war, which has lasted nearly as long as the fight for independence from Portugal, has reduced government-controlled Angola to an archipelago of urban islands strung over a nation twice the size of France.

Roads and most of the countryside are no longer safe from mines or ambushes by guerrilla units of the Union for the Total Independence of Angola, or UNITA. The group, which opposes a government backed by the Soviet Union and Cuba, is armed by South Africa and the United States.

Of 4,400 miles (7,100 kilometers) of paved roads inherited from the Portuguese, about 400 can be traveled without armed escort, and workers said.

In September, UNITA guerrillas kidnapped three Swedish aid workers, killing one, about 30 miles from Luanda, the capital. Since then, many European embassies warn their citizens not to go farther than 25 miles from Luanda.

In one of the few remaining development projects in the interior, Brazilian and Soviet engineers are building Kapanda Dam about 200 miles east of the capital. Planes ferry workers in and out. The site is protected by 3,000 Angolan Army soldiers in trenches.

Another explanation is that the economic crunch itself has brought on the urge to splurge.

"Russians are never very wise in their spending habits," a Soviet office worker said. "And now that there are these new restaurants, a man wants to rush off right away and spend his paycheck on dinner just to see what it's like."

Whatever the reason, the latest trend among a minority is spending money, particularly in the cooperative cafes and shops that have opened in the past year. The plastic jewelry manufactured by one small cooperative went so quickly that its owner made nearly 216,000 rubles in six months, according to Ivestia, the government newspaper.

In Moscow, the newest outlets for rubles are the cooperative restaurants, including Yaki-Mania, with its Uzbek and other Asian cuisine, the Red Flower, which features Chinese food, and the Moscow Dawn, specializing in food from Soviet Georgia.

None of them are cheap. In Kropotinskaya 36, which opened a year ago, the average dinner bill is 35 rubles for two, or three days' salary for

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As Russians prepare for traditional New Year's Day celebrations, a young customer eyes tree ornaments at a department store in Moscow called Children's World (Detskiy Mir).

For a Ugandan Priestess, a Bloody Crusade Nears Its End

By Sheila Rule
New York Times Service

NAIROBI — The words of a self-styled priestess in Uganda appeared to represent a balm to people squeezed by poverty, tribalism and bloodstained political violence.

"I am poor and needy," Alice Lakwena told peasants, associating herself with their miseries. "I am hurt to the depths of my heart. Like an evening shadow, I allow about to vanish. I am blown away like an insect, my knees are weak from lack of food."

Chr "Make my enemies know that you are the one who saves me," the 27-year-old woman beseeched God. "They may kill me but you will bless me. May my persecutors be defeated."

Over the last year, Miss Lakwena led many hundreds of barefoot followers, armed with stones, sticks and supposedly magical oils, to their deaths in a rebel war.

Their foe was the well-armed National Resistance Army, led by the head of state, Yoweri Museveni, who took power after a military victory in January 1986.

Miss Lakwena's movement, which she reportedly viewed as a religious crusade to rid Uganda and the rest of the world of evil, is now virtually destroyed.

Witnesses say the rebel leader is wounded and, with a rosary around her neck, is being pushed through the bush on a bicycle by a handful of loyal followers.

She is said to be about 140 miles (225 kilometers) northeast of Kampala, the capital, which she once vowed to capture before taking her mission to South Africa and Sudan.

Up to 6,000 peasants, soldiers from previous governments and other disaffected Ugandans journeyed hundreds of miles with Miss Lakwena, whose name means messiah in her Acholi tribal language.

Accounts by captured rebels and the journals they kept, which the Ugandan government made available to reporters, revealed how her movement, the Holy Spirit Movement, mobilized hopes.

The entries, written by scribes ordered to record Miss Lakwena's sayings, military commands and magic potions, also offered insights into the realities of a nation shaken for years by gross misgovernment, brutal violations of human rights and endemic tribal, ethnic and political conflicts.

Miss Lakwena was born Alice Auma in the northern district of Gulu, the daughter of an Anglican catechist. She converted to Roman Catholicism and became a self-described herbalist and traditional healer.

Followers said she was possessed by several spirits, including those of an Arab, a North Korean and one called a "wrong element," a demon so fierce that it would lead Miss Lakwena to order the execution of anyone who coughed while she was talking.

But the dominant supernatural force was "Lakwena," through which the priestess was believed to receive messages from God. Diaries said the spirit was that of a former Italian Army officer who drowned at 95 and was a "God-fearing and disciplined person."

Such professed powers had great appeal among many of Uganda's deeply religious and superstitious peasants.

Miss Lakwena said that "His Holiness Lakwena" told her that Uganda had to be rid of "bad people," including those among her own forces. Some former rebels told reporters that they were fighting not against Mr. Museveni but for God.

"We were fighting for judgment," said Mosco Opira, 23, after his capture. "The judgment is on both sides. When people died after battle, Lakwena would say it was their fault. Whoever dies is a sinner."

Miss Lakwena quickly gathered followers, forcing some to join under threat of death, government officials and captured rebels said. Spurred by her mixture of Christianity, traditional African beliefs and promise of peace, bare-chested rebels ran into battle singing hymns and clapping.

Their bodies were smeared with what they were told was magical oil that would make enemy bullets kill those who fired them. They threw stones that they believed would explode like grenades.

In and out of battle, the Holy Spirit followers were to abide by strict codes of conduct. They were to "listen to Lakwena only." They were not to smoke, drink, have sex, steal or take cover while fighting. They were never to eat with any non-Christian and were not to kill snakes, which were viewed as important when Judgment Day came.

The priestess, sometimes called "Mommy" by her followers, also appealed to deeply rooted tribalism.



Alice Lakwena, center, with followers at a camp east of the Ugandan city of Jinja. The photo was taken in October, before she reportedly was hurt in a clash with Ugandan troops.

Most of her followers were northern Acholis, who dominated the army before Mr. Museveni's predominantly southern forces seized Kampala.

Haunted by Uganda's violent history, peasants believed that Mr. Museveni would move to massacre the Northerners. Rights groups and others have accused government soldiers of violating human rights in the North.

With the loss of control over the army, the Acholis lost the remnants that soldiers sent home to support the region's economy. At the same time, cattle raiders from the East carried out violent attacks on the peasants, many of whom believed the raids were supported by the government.

For these people with few options, hope was found in a woman who promised them salvation.

Tribeswoman Conquers Skeptics In Manila but Finds City a Pain

By Seth Mydans
New York Times Service

MANILA — Dula, the first member of the primitive Tasaday tribe known to have visited a big city, has spent much of her time in the Philippine capital sitting on her bed waiting to go home again. Her belongings packed and ready.

"People are so different here. I cannot understand them," she said in an interview before her departure for home.

"It's very nice here, but it's better in our place," she said. "It's quieter."

Dula is a member of an isolated group of cave dwellers discovered by anthropologists in 1971. A slight and graceful woman of about 40, she spoke quietly, almost inaudibly, from the Tasaday dialect to the tribal tongue of T'boli to English, through two translators.

In a dispute that has involved political, business and academic rivalries, she had come to Manila to prove that she was a genuine Tasaday tribeswoman.

At a congressional hearing during her week-long visit, she said she had been coerced into stating at an earlier hearing near her home on southern Mindanao island that she was not a true Tasaday.

After her testimony in Manila, and the statements of several anthropologists and other experts, the skeptics appeared to be in retreat. Dula said that her visit had been disorienting. Asked to describe her reaction to the city, she said, "I do not feel very happy inside myself. It is very painful in the heart."

When the 26 original Tasaday were discovered deep in the rain forests of Mindanao, scholars described them as a group of food gatherers who used stone tools, dressed in leaves and had no agriculture.

The Tasaday, they said, had no weapons, and their language, a distinct dialect related to other tribal tongues, appeared to have no words for enemy, war or anger.

They also had no word for the ocean. Only 50 miles (80 kilometers) away, they and their neighbors believed that they and neighboring groups in the forest were the only people on Earth.

Dula, barefoot, was dressed in layers of bright clothing with strings of colored beads around her throat, bangles in her ears, metal bracelets on her arms and a plastic comb in her hair.

She had blackened her teeth, and her lips were daubed with lipstick. Her fiery combs from the more advanced T'boli tribe, with whom the Tasaday have intermarried since the outside world intruded.

Dula now lives with the T'boli outside the forest.

Her husband, a T'boli tribesman named Banas, sat quietly beside her during the interview, watching with what seemed like pride as his wife answered the questions of a foreigner.

Her marriage, her bright clothing and her visit to Manila are signs of the changes that have affected the Tasaday since it was touched by the outside world.

Even Dula's relatives, whom she said she sometimes visits in the forest, now wear cloth garments and are reported to be learning the rudiments of trapping and planting.

Asked whether she preferred her old or new way of life, Dula said, "It has not been so much different. We like the way we were before, but we like the way we are today."

Asked what she would like to take home with her when she returned from Manila, she said, "I want to take Momo Dakek."

Momo Dakek is the name used by the Tasaday for Manuel Elizalde Jr., who protected the group after its discovery. His disappearance from the Philippines in 1983 led rumors that he had either been coerced or exploited the existence of the Tasaday for his own profit.

Mr. Elizalde, the son of a wealthy Philippine family, denies the accusations. As head of Panamin, a tribal-protection agency, he helped the Tasaday secure a protected zone that covers miles of forest coveted by loggers and miners.

He is back in Manila now, battling to retain control of his business interests and to protect his reputation and that of the tribe.

Dula, like the other Tasaday, came to view him as something of a deity. Researchers reported that the forest-dwellers believed that someone from the outside world would one day come to help them.

Dula, her husband and the two translators who accompanied her to Manila have stayed in Mr. Elizalde's mansion, where the living room opens onto an indoor roller-skating rink.

Servants in white uniforms bring them drinks on a tray, and they watch videotapes of Dula's congressional testimony on a color television set.

But Mr. Elizalde said Dula had shown no interest in seeing more of Manila than she did on her trip to and from the congressional hearing.

"She has declined any kind of excursion to town or to go shopping," he said. "She doesn't know what shopping is."

For the most part, Dula and her companions have kept to themselves, leery of strangers and of the noise of the big city.

"They would prefer to lie down and chat among themselves and chew betel nut and sleep," said Helen Mahundo, an anthropological field worker, after the interview.

She said that Dula was "sitting on her bed now, with all her bags, ready to go at any time."

Rival Catalan Separatists Claim Barcelona Blast

BARCELONA — Rival Catalan separatist groups claimed responsibility Sunday for a grenade attack on a Barcelona bar, which killed a U.S. serviceman and wounded nine others, but police said they doubted the claims.

Seamus Ronald Strong, 22, died in the hospital early on Sunday of shrapnel wounds suffered in Saturday's attack, the fourth this year on U.S.-linked facilities in Barcelona.

The U.S. Embassy said none of the nine other casualties received life-threatening wounds in the afternoon attack on the Bar Bruna, popular among U.S. Navy sailors on shore leave.

Four were treated in the hospital and five others returned to their ships, the destroyer Betsy and the frigate Thetis, which are on a Christmas call at Spain's biggest port.

Two Catalan separatist organizations, Terra Lliure (Free Land) and the little-known Catalan Red Liberation Army, telephoned news media to claim responsibility for the attack.

ERCA, which has said it bombed the U.S. consulate and offices of U.S. companies Hewlett-Packard and General Electric in Barcelona earlier this year, later asked Terra Lliure to withdraw its claim for the attack.

Police said they had no evidence that the claims were authentic. The U.S. Embassy said there was no clear indication of who was responsible.

Police investigated a report that a man, described as an Arab or a person of mixed-race, ran off after the attack.

They said two grenades hurled into the bar were Italian or American-made but provided no clue. Residents said anti-American slogans were daubed recently on walls near the bar.

Local officials would not rule out a link between the attack and dead-end talks on reducing the U.S. military presence in Spain.

Palestinians were held responsible for the last major attack on U.S. forces in Spain — the bombing two years ago of the El Desencanto restaurant, near Madrid, in which 18 Spaniards died and 15 U.S. servicemen were injured.

Within hours of Saturday's attack, suspected Catalan separatists tried to blow up a replica of the ship in which Christopher Columbus sailed to America in 1492, police said.

Compiled by Our Staff From Dispatches

ISLAMABAD, Pakistan — The Soviet-backed Afghan government and the Moslem rebels each claimed major gains Sunday in fighting at the besieged eastern garrison town of Khost, where the situation remained confused.

An Afghan minister said that a major government military offensive had opened up the highway that leads to the outpost near the Pakistan border, where rebels have been conducting a prolonged siege.

The announcement by the tribal affairs minister, Solayman Laeq, was broadcast by the official Kabul radio on the eighth anniversary of the Soviet military intervention in Afghanistan.

The region around Khost has been held by the guerrillas since the Soviet occupation began, but the town itself has remained a government stronghold.

Mr. Laeq, in a statement carried by the state-run news agency Bakhtar, said that troops were now "ensuring security" on the road to Khost, said Kabul radio, monitored in Islamabad.

He did not say, however, if the rebels had ended their siege of the garrison. And the Soviet news agency Tass quoted another Af-

WORLD BRIEFS

Spain Says France Holds ETA Leader

MADRID (Reuters) — The French police have detained the new military chief of the Basque separatist organization ETA, Spanish Interior Ministry sources said Sunday.

The sources said that Ignacio Pujana Alberdi, 26, who was arrested Wednesday in Angoulême, had ordered the attack that killed 11 persons including five children, in the family quarters of Zaragoza's Civil Guard barracks this month.

He had taken over as the head of the commandos of ETA from Santiago (Ponros) Arrospe, who was arrested in October in southwest France, they said. In Paris, the Interior Ministry declined to confirm that Mr. Alberdi was the leader of ETA. A ministry source said Mr. Alberdi and another Spaniard arrested with him, Roberto Martinez, were charged on Saturday with carrying weapons illegally. Mr. Alberdi was also charged with attempted manslaughter.

Tutu Urges Calm as 13 Die in Natal

JOHANNESBURG (WP) — Despite an impassioned appeal by Archbishop Desmond M. Tutu for calm, eight more persons were reported killed Sunday in factional fighting in black townships in Natal Province.

The deaths raised the tally of South African blacks killed over the Christmas weekend in intercommunal clashes to 13. In his first statement on Christmas since trying to mediate between factions on Dec. 6, Archbishop Tutu denounced the "ghostly spiral of unending revenge killings" and called for an "immediate cease-fire." He also accused leaders of the conservative Inkatha movement of Zulus and the militant United Democratic Front of "verbal political attacks" that fueled the fighting.

It was one of the most violent weekends ever in Natal, where street warfare between rival groups has resulted in the deaths of more than 200 persons in the last two months alone. Most of the clashes have occurred in townships around the provincial capital of Pietermaritzburg.

Fast Ends for Polish Draft Resisters

WARSAW (Reuters) — Fourteen members of the Polish dissident group Freedom and Peace ended a two-week fast on Sunday after failing to win the release of jailed draft resisters, their spokesman said.

A doctor who examined the 12 men and two women, all in their 20s and 30s, said that each had lost from 20 to 25 pounds (9 to 12 kilograms) after drinking only mineral water for two weeks but that none was ill, the spokesman said.

The police in the Baltic port of Gdansk arrested a ninth Freedom and Peace member on Friday for resisting the draft, and four members have already been sentenced to two to three years in jail. Two years' military service is obligatory in Poland. Alternative civic service can be granted only on health grounds.

Seoul Faces Decision on U.S. Goods

SEOUL (AP) — South Korea will decide this week whether to meet the U.S. demand that it open its markets further to certain U.S. products or risk U.S. sanctions, officials said Sunday.

"Economic Planning Minister Chung In Yong will call another meeting of concerned ministers this week to work out a final government strategy," an aide to Mr. Chung said.

After three days of trade talks last week in Washington failed to reach agreement, the United States threatened to put high tariffs on some South Korean imports unless markets open up more by the end of the year to U.S. beef, cigarettes and insurance firms.

TRAVEL UPDATE

U.S. Airlines to Limit Carry-On Bags

WASHINGTON (AP) — Beginning Friday, the major airlines in the United States, under a new safety requirement of the Federal Aviation Administration, will impose stricter limits on the amount and size of luggage and other items that accompany passengers onto an airliner.

While leaving the airlines leeway to determine how many bags may be brought aboard by passengers and how large they may be, the agency has ordered that no item may be taken on board if it cannot be stowed beneath a seat or overhead bin, or hung in a cabin closet. The agency has also suggested that generally no more than two bags should be allowed into the aircraft cabin, although the number could be increased depending on how full the plane is.

The agency suggests general size limitations of 9 by 14 by 22 inches (about 23 by 36 by 56 centimeters) for under-the-seat storage, 10 by 14 by 36 inches for overhead bins, and 4 by 23 by 45 inches for cabin closets. The two-bag limit does not include such additional items as a pocketbook or purse, overcoat, umbrella, camera, an infant bag, or a child safety seat.

More than 2,000 Portuguese tourist guides and interpreters held a 24-hour strike on Sunday to protest against what they say is the illegal employment of unqualified foreign guides by tour operators. (AP)

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Australia, Britain, Canada, Cayman Islands, Cook Islands, Ireland, Gibraltar, Luxembourg, Montserrat, New Zealand, Nigeria, Papua New Guinea, Sri Lanka, Vietnam.

TUESDAY: Britain, Ireland, Japan, Madagascar, Nepal, Sri Lanka.

WEDNESDAY: Colombia, El Salvador, Japan, Madagascar, Philippines.

THURSDAY: Andorra, Argentina, Bangladesh, Benin, Belgium, Brazil, Brunei, Canada, Chile, Colombia, Congo, Czechoslovakia, Denmark, Ecuador, El Salvador, Finland, France, French Guiana, French West Indies, Honduras, Iceland, India, Italy, Ivory Coast, Liechtenstein, Luxembourg, Madagascar, Mexico, Montenegro, Netherlands, Netherlands Antilles, New Caledonia, Nicaragua, Norway, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, St. Kitts-Nevis, St. Pierre and Miquelon, Sri Lanka, South Korea, Switzerland, Taiwan, Thailand, United States, Vatican City, West Germany.

FRIDAY: all countries except Afghanistan, Bangladesh, Bhutan, Burma, Egypt, Ethiopia, Iraq, Libya, Malaysia, Oman, Pakistan, Qatar, Saudi Arabia, Sri Lanka, Yemen.

SATURDAY: Bahrain, Botswana, Haiti, Japan, Mauritius, Mongolia, Romania, Seychelles, South Korea, Switzerland, Taiwan, Western Samoa, Yugoslavia.

SUNDAY: Burkina Faso, South Korea, Sri Lanka.

Source: Morgan Guaranty Trust Co. Reuters.

In First, Nude Painting and Abstract Win Awards at a Chinese Exhibition

By Daniel Southerland
Washington Post Service

SHANGHAI — For the first time in China, judges at a national art exhibition have awarded a prize to a nude painting.

An abstract painting also won one of the 15 prizes at the exhibition, which opened here last week.

Nude and abstract paintings have caused controversy in China for decades.

Only in recent years could Chinese artists openly exhibit paintings of nudes.

As recently as last year, officials sometimes barred nudes from exhibitions or removed them from the walls.

The nude painting that won the award, titled "The Earth," depicts a woman and a man lying parallel on cloth pallets. The woman is facing upward and the man downward. The painting conveys a tranquil, ethereal quality.

"Although 'The Earth' is not perfect in its proportion and composition, it gives us a sense of purity with a simple, implicit style," Ge Weimo, an exhibition judge and member of the secretariat of the Chinese Artists Association, told

the official China Daily newspaper.

The award seems to reflect a more relaxed atmosphere following a Communist Party congress in late October. The congress led to the retirement of two leading party ideologues who favored strict controls over art and literature.

But it is unclear how far this apparent relaxation will go.

Only a few weeks before the party congress, police prevented a Beijing painter from exhibiting his work in a city street.

A well-known young artist who paints nudes and sometimes works in a surrealistic style has been refused permission to travel abroad.

When Liu Jixian, 27, a self-taught artist who goes by the name A Xian, mounted an exhibition of his works here last year, he included several paintings showing voluptuous female nudes moving in a

dreamlike manner through the old Imperial Palace.

He was visited by two men, apparently police, who told him that "the masses have some complaints about these paintings."

The artist was advised to move the paintings to a small room adjoining the main exhibition, where he could show the nudes to those who asked to see them and "those who can understand them."

The 440 oil paintings shown last week at the Shanghai exhibition center drew large crowds, with young people in the majority. Only a few nudes and abstract paintings were included. Most of the works on display were in realistic styles.

The China Daily found it remarkable that most of the paintings had no moral or political messages.

Singapore Limits Far Eastern Review

Reuters

SINGAPORE — The government has cut the weekly circulation in Singapore of the Far Eastern Economic Review by about 90 percent as punishment for the magazine's alleged involvement in the island republic's domestic politics.

A statement issued by the Communications and Information Ministry charged on Saturday that the Hong Kong-based magazine "attempted to pit the Catholic Church against the prime minister and the government, and sow suspicion

among Catholics in Singapore against them."

The statement said that from Dec. 29, the circulation of the Review in Singapore would be limited to 500 copies weekly, down from about 10,000 copies. The Audit Bureau of Circulation in London estimated that the Review's circulation in Singapore, as of June 30, was 9,346.

It was the fourth publication to have its circulation cut by the Singapore government in the past 17 months. The magazines Time and Asiaweek, and the newspaper

Asian Wall Street Journal all had their circulation limited. Only Time's has been restored.

Singapore's Parliament passed a law in August 1986 giving the government power to restrict sales of foreign journals that were deemed to be interfering in local politics.

The controversy between the Review and the Singapore government centers on a Dec. 17 article on Edgar D'Souza, a Roman Catholic priest who resigned the priesthood last week.

The government linked Mr. D'Souza, 39, to an alleged Marxist plot to overthrow it, and accused him of having an affair with a woman. Mr. D'Souza left Singapore last June for Australia.

The statement said the article was based on a distorted account by Mr. D'Souza of a meeting on June 2 between Prime Minister Lee Kuan Yew and Archbishop Gregory Yoo. The meeting followed the arrest of 16 alleged Marxists, including 10 church workers.

Kenya and Uganda Leaders to Confer

The Associated Press

KAMPALA, Uganda — President Yoweri Museveni of Uganda and President Daniel arap Moi of Kenya will meet Monday, two weeks after the East African neighbors exchanged gunfire across their borders.

Information Director Jenkins Kiwanuka would not say where the two leaders would meet.

A yearlong diplomatic quarrel between the two countries erupted into exchanges of fire Dec. 14, with both sides accusing the other of starting the trouble.

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Herald Tribune

Published With The New York Times and The Washington Post

Soviet Reforms: Round 1

There's no doubting Mikhail Gorbachev's determination to breathe new life into the wheezing Soviet economy. But there are already reasons to think that his first round of reforms will fail.

The general secretary's hastily prepared, superficial plans offer easy targets for the muscular Soviet bureaucracy. The best hope for lasting change lies in Mr. Gorbachev's ability to communicate with the Soviet elite; he will have to persuade them that there's no turning back, that the alternative to a competitive market-based system is stagnation and the erosion of political legitimacy.

The first serious test of perestroika starts Jan. 1, when the first of the major economic reforms take effect. Enterprises generating some 60 percent of Soviet output will cease being passive cogs in the wheels of the central plan. "Self-financing" plants will be free to bargain with suppliers and wholesale customers for some products. Successful enterprises will be permitted to keep much of their profits, with the extra rubles going into higher wages and fringe benefits. Unprofitable enterprises will suffer the classic capitalist penalty: bankruptcy.

By 1991, all civilian production is to be similarly unleashed, and the fraction of output purchased by the government pared to just 30 percent. Mega-subsidies that now encourage the waste of food and fuel will be phased out. Small-scale cooperatives will be encouraged to sell services like computer software and watch repair. And millions of acres controlled by collective farms will be leased to families for a share of the crop.

Those are the reforms. But even before the ink was dry on the decrees, the bureaucrats were sabotaging their effect. Only prices for new products will be freed. Enterprises will thus be under great pressure to retool for new products, but will remain obliged to meet ambitious output goals left over from the current central plan. A manager's best way to avert early failure will be to give priority to orders from the state, whose bureaucrats can guarantee timely deliveries of scarce inputs. The decentralized wholesale market, key to efficient pricing, may thus wither before the first blossom.

Manufacturing is already highly centralized and skeptics note that the decrees encourage large enterprises to grow still larger through conglomerates. The intent is to get the maximum bang from technology and to create a counterweight to the government ministries. The more likely effect, though,

will be to create giant monopolies with the incentive and power to stifle competition. Even if competition does prevail, it's far from clear that the fittest will survive. In a well-functioning market economy, success turns on managerial skill and hard work. Communist ideology, however, has apparently prevented the Russians from offering a practical way for well-run but aging enterprises to raise capital at competitive rates.

Halfway reforms could thus mean an avalanche of bankruptcies among undercapitalized, but otherwise worthy, enterprises. Perhaps a quarter of all enterprises are expected to be unprofitable the day they become self-financing. Each of them is thus turned into a natural ally of the bureaucracy in the struggle to beat back reform.

Sophisticated Soviet reformers acknowledge these obstacles but argue that they can afford to lose a few battles. Mr. Gorbachev, they note, is committed to dismantling the planning apparatus — one insider claims that 60,000 planners will get the ax this year in Moscow alone. And without the troops to support paper clip-by-paper clip planning, the old guard will just have to loosen up. In any case, reformers argue, the early news won't be all bad. Family farming, combined with heavy investment in better rural roads and storage facilities, could improve the quantity and quality of food almost overnight. Far more money, they also point out, will go into housing, relieving the crowding so bitterly resented by ordinary citizens. The better basis for optimism, though, is that early mistakes are likely to push Mr. Gorbachev forward, not backward.

Soviet leaders may not know yet that growth depends on a radical move toward free markets. But they probably do understand that central planning-as-usual can no longer keep up with the complexities of a modern economy. Thus, without successful reform the Soviet economy will go the way of Britain's, slipping toward senescence. That might not topple the ruling elite or threaten the ability of the Red Army to defend the homeland, but it would certainly mean humiliation for those who claim to lead a world revolution.

Even this incentive to reform can't guarantee that the bear will find a way out of the Stalinist maze. And American policy cannot soon be based on the expectation of successful restructuring, or even on Soviet will to continue trying.

— THE NEW YORK TIMES

On to Mars, Via Moscow

The U.S. space agency keeps looking at the heavens through bizarre bifocals. At a time when the paramount need is to reduce the federal deficit, NASA's top goal is to build a \$32 billion space station that has no clear purpose. Congress knows that, yet is willing only to cut in half NASA's request for \$770 million in start-up funds.

It would do better to transcend timidity, cancel this colossal circus and point NASA to a more productive long-term goal: a joint mission to Mars with the Soviet Union.

This is no time for big-ticket space shows. In the next few years, a sensible space budget would be devoted to cheaper unmanned missions, like launching satellites to monitor the earth's climate and environment, and robotic spacecraft to explore the solar system. But NASA also needs a long-term goal for manned flight that can focus its efforts without requiring immediate large outlays.

The agency has long wanted to send humans to Mars. As a purely scientific project, that's laudable. Automated spacecraft could explore the planet more efficiently. No president has agreed to the Mars project, and in lieu of any other clear need for men in space, NASA has kept itself and contractors busy with extravagant, all-purpose hardware like the shuttle and the space station. In a diplomatic context, however, a Mars mission generates electric interest. A joint project with the Soviet Union would be a long venture, with many problems requiring cooperation and many milestones for political leaders to celebrate. It would force an extensive, positive interaction between the two governments. And it would at last give NASA's man-in-space constituency a worthwhile goal.

Is an occasion for pleasant interaction

with the Russians worth \$50 billion? No. But the possibilities are much larger. For instance, consider the importance many people attach to arms control negotiations as a way to increase understanding, and not just for their direct practical effect. A complex joint space project might increase understanding just as much, and in a context free of the suspicion and accusations that arms treaties provoke. A round trip to Mars would take about a year, with a few weeks on the Martian surface. It would be an adventure fraught with risk, and with compelling public interest. Preparing for the trip, and the unmanned reconnaissance visits that would precede it, would draw the two countries together, force each to rely on the other's skills and divert competitive energies into positive channels.

The Russians are ready. "We should go to Mars together," Roald Sagdeyev, director of Moscow's Space Research Institute, said in a recent article in The Washington Post. The offer is not made from weakness. The Soviet Union, unlike NASA, has ample launching capacity, and a vigorous program for exploring Mars. Several unmanned missions are planned before the year 2000, starting in 1988 and 1992 with spacecraft to prospect for water, map terrain and land on Phobos, a Martian moon.

President Reagan is an enthusiast for space. He endorsed the space station, and sent a schoolteacher to ride on the shuttle. But he has lost interest since the Challenger exploded, and has let NASA drift. It's not too late for him to leave a larger legacy than the militarization of space. He could put a joint mission to Mars on the agenda of his next meeting with General Secretary Gorbachev.

— THE NEW YORK TIMES

Other Comment

33's Suggestions Ignored

The signing of deficit-reducing legislation by President Ronald Reagan was quickly hailed by G-7 finance ministers and central bank heads, who pledged further efforts to stabilize the foreign exchange market. But considering the sheer volume of the U.S. deficit, the budget-tightening package is decidedly inadequate, and none of this had any real impact on the market itself.

Thirty-three of the world's leading economists have proposed measures the U.S. government should take to avert a global economic crisis. They urged drastic cuts in expenditures — including military spending — and revising the tax system so that people will save and invest more and spend less. But, unfortunately, it seems that these perfectly sound suggestions have fallen on deaf ears in U.S. government and congressional circles.

— The Asahi Evening News (Tokyo).

Another Threat of Famine

As drought, guerrilla wars and governmental bungling again create a risk of famine in Ethiopia, there is hope that the terrible toll of 1984-85 will not be repeated. But that is by no means certain. At present, governments have contributed about half the food aid needed next year, according to the U.S. Agency for International Development. But private voluntary organizations, which handle almost all the deliveries, are running low on money, and there has not been a repetition of the public outpouring of funds that was crucial in the response three years ago.

"The situation is the opposite from 1984-85," an official of the Save the Children Federation said. "Then, the public was up in arms and the government was slow to respond. This year the government has been quick to respond and the public at large is nowhere."

— The Los Angeles Times.

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OPINION

An Old Story, With New Hope

By Flora Lewis

PARIS — The Christmas story is always present, always new. It is the story of joy and renewal of life, of eternal yearning for hope. In one form or another, it exists in every religion, even in ideologies that reject religion because all people want to look for something better, something sure, something solid. But there never really was a golden age. The calamities, the violence, the distress on the front page are not really news. What is more familiar from the Holy Land than an account of hatred and suffering, of injustice and abuse of power? So it was in the time of Christ, so it seems to remain today. So the old story summons again a sense of humility and a need to reach for higher inspiration. Its message is of the divine spark in everyman that enjoins us to recognize our common humanity.

Hatred is deeply human. We see it everywhere, lately in Sri Lanka and India, Iran and Iraq, Afghanistan, Cambodia, Ethiopia, Uganda and Kenya, South Africa, Nicaragua, El Salvador, Peru, and on the streets of the United States of America. That is why love has to be preached. It is deeply human, too, but it is often forgotten. Still, the endless battle can be tipped, attitudes do change. Europe is an example. It is still armed to the teeth. But after a millennium of mutual massacre it has no more illusions about glory, nobility, rewards of war. It took time, but the transformation of the Scandinavians from aggressive tribes bent on conquest and pillage to determinedly peaceful and generous citizens is one of the feats of history.

The world is getting bigger and smaller at the same time, a bewildering shift that history provides few guidelines on how to

face. It is bigger because it is burgeoning with people, now five billion compared with probably less than a million at the start of the Christian calendar. It is smaller because of communications: we are aware of each other at the greatest distances and we know quickly when something goes terribly wrong anywhere. That requires new attitudes and new willingness to accommodate the other, the alien, even as we cling in desperation to the familiar to reinforce identity and reassure dignity. In the 19th century, Westerners believed in the inevitability of progress. Europeans thought they had found the secret of improving the world with their manufacture, their science, their impatience with things as they were. Now we are not so sure. We have much more manufacture, much more science, much more impatience. But we also know more of dread and of the terrible things we can do to each other and to ourselves; progress has become a question as much as an answer. The doubts should not be overwhelming, though. Many things are in fact immensely better, as a result of hard human effort. A huge number of people live very well and for longer and longer life spans, in ways that would not have been imagined at the turn of the century. A much larger number, because there are so many more, subsist on the brink of survival. But this is no

longer simply taken for granted, as God's affair, not mankind's. Conscience has broadened and there is a sense that we could do something about it if we tried harder, sought to be wiser, more helpful. And there is a sense that the world has come too far for the afflicted to accept in docility that their lot cannot be otherwise. The late James Baldwin, a man who knew how to make music of rage, said, "It is terrible to watch people cling to their captivity and insist on their own destruction." That is true, and it is terrible to watch the destructiveness of that, as it is exhilarating to watch people lift themselves for life, and not only themselves but those among whom they must live.

In the late 20th century, more of everything is possible but there is also more understanding of the hubris of righteousness, of being too certain that our heartfelt needs and demands are creating solutions rather than new, perhaps greater problems. Attitudes about the formulas for Utopia have changed, too. The French philosopher Andre Glucksmann warns in his book "Stupidity" ("La Bêtise") that the inevitable consequence of setting oneself up to make over the world, as ideologues do, is what he calls "idiotocracy." Who can know what is good for everybody else? Those who pretend to wind up doing what they think is good for themselves, at the expense of everybody else.

The modest goal has to be to avoid hurting, to prevent harm, to nurture the gentleness and tenderness, the reverence for life that the Christmas story evokes.

The New York Times.

NATO Needs a Leader as It Enters a Year of Challenge

By Frederick Bonhart

BRUSSELS — NATO's challenge: What now? If the question does not exactly echo through the alliance, it certainly is on peoples' minds. And it needs to be answered if NATO is to enter 1988 with any sense of confidence in its future.

The INF treaty has been signed and, unless there is a hitch, the missiles will be out within three years. A strategic arms reduction treaty is well on its way, and NATO experts are putting the finishing touches to a substantive conventional arms control proposal that, it is hoped, will be ready for negotiation by next spring. NATO therefore appears to be in good shape. Lord Carrington, NATO's secretary-general, has certainly declared it to be so. The Americans, from President Ronald Reagan to Secretary of State George Shultz and Secretary of Defense Frank Carlucci, have given numerous assurances to the alliance. And, at the Dec. 11 meeting of the North Atlantic Council in Brussels, the foreign ministers of all the NATO countries reaffirmed their belief in and resolve for the strategy of flexible response.

The reality is somewhat different. In the first place, this strategy depends on a mixture of nuclear and conventional forces, which requires each member to make a continual expenditure on its defenses. Yet defense expenditure in almost all NATO countries is leveling off or declining, while the United States, is facing dramatic cuts.

But there are far graver problems. Slowly, at first almost imperceptibly, a German problem has arisen. Its symptoms are the increasingly audible complaints of being "singled out" in the alliance. Those complaints emerged in the wake of the double zero decision and the pressures, real or imagined, that Bonn believed its partners had exerted on it to renounce its Pershing-1A missiles. West German politicians now emphasize what has been known all along, that after the removal of the intermediate range missiles, most of the short range nuclear weapons left will be targeted at their soil. They include in this term — and this is a departure — the whole German territory, east and west. Simultaneous with overtures to the German Democratic Republic by night, as well as left-wing politicians, Bonn's senior officials now appear to feel that in NATO councils they speak for both parts of Germany.

It is this trend that leads to powerful pressure for a third zero solution: that of the short range nuclear weapons. This trend is all the more ominous because, unlike the opposition to Pershing and cruise missiles that came almost entirely from the political left, the present call for doing away with all missiles in West Germany comes from the side normally associated with support for strong defenses, the right. Although West German statesmen are fully aware of the danger of a denude-ization of Europe and explicitly reject it, they seem unable to resist it.

If this lack of resolution were confined to Germany, it would not, per-

The Hart Campaign's Hidden Helpers

By William Safire

WASHINGTON — The hide-bound power brokers of the Democratic political establishment must be in cahoots with the paranoiacs of the media mafia to bring about the nomination of Gary Hart.

His populist strategy could not have been made more plain: to go over the heads of the politicians and pundits who condemned him and, by godding them to new heights of arrogance, to "let the people decide" if his admitted private transgressions made him ineligible for public office.

Both polls and pundits fell all over themselves in rushing to congratulate Mr. Hart's strategy.

Democratic muckymucks humed at the man's colossal gall, to seek a comeback without clearing it with them; the Democratic national chairman broke the rules of neutrality to hump loudly; the field's six-pack of candidates were horrified at the prospect of competition from a famous campaigner; the Florida state chairman sputtered that he would prevent Mr. Hart from getting on the Democratic ballot — but that denial of voter rights was a bit much and after it became clear that it would cause a convention credentials crisis, the chastened official ever so quietly backed off.

But outraged mediocrity could even the apocryphal polls. By what right did anyone refuse to bow to the sober moral judgment of the keyhole press? Even Richard Nixon had the decorum to wait years before coming back — who dared do so after a mere six months of penance? The psychiatric couch potatoes of talk shows and news magazines fixated on Hart's ulterior motive — as if the motive of all the other candidates was something far nobler than a normal desire to run the country or a politician's need to be No. 1.

This has the Hart strategy been successful so far: the polls and the press are lined up nicely against him and the people. But this honeymoon of monolithic opposition can't last. Sooner rather than later, some shrewd old Democratic pols will grasp the coming Affinity of the Outsiders: a Southern maverick like Jesse Jackson, who will have a large bloc of delegates at the convention, already has made a welcoming overture by telephone last week to the man he sees as a potential winner. We'll see a handful of savvy pols quietly move toward Mr. Hart, followed by a couple of constituency-conscious feminists, thereby diluting the purity of the present confrontation.

Worse, the media pendulum will swing, as it always does: a few reporters will undertake contrarian analysis and stop scolding the Hart campaign as "self-restored."

Television types will learn that a brief mention by Mr. Hart that his headquarters is in Kittridge, Colorado, has drawn mail with checks totaling nearly \$5,000 a day. A liberal pundit or two (not suspect, as I am, of delighting in Democratic disarray) will note that Mr. Hart is not talking about "tough choices" but actually making them in handwritten speeches.

In that light and at that point, with pols hedging their bets and the huffy media losing its indignation, the initial Hart anti-establishmentarianism will have to adapt. As a Hart nomination ceases to be unthinkable, his party opponents will press the claim that he is "unelectable" — that no man who is the butt of dirty jokes can win.

This "can't win" technique was first used in U.S. politics by the wirepuller Thurlow Weed against Henry Clay in 1840. It worked against Clay, and again against Robert Taft when used by Eisenhower men, but failed when tried by Nelson Rockefeller against Mr. Nixon in 1960 and 1968. The perfect antidote to the can't-win poison, now called "unelectability," victories in primaries. Losers cannot credibly keep calling a winner a loser.

The united front against Mr. Hart, so helpful in crumble soon after he has used it as a launching pad. Deprived of that supportive opposition, he will have to rely on the subsequent "unelectable" charge by winning most of the weekly primary elections. Then, at the convention, the anybody-but-Gary die-hards will be forced to test the strength of the Affinity of the Outsiders.

The New York Times.

Tokyo, if Not Washington, Can Live With the Dollar

By Hobart Rowen

WASHINGTON — Japan has Western world. It has learned to live with the high yen, just as it did with the oil "shocks" in 1973 and 1979. Moreover, Japanese investors have turned an appreciating currency to their advantage, snapping up American real estate and other properties at bargain-basement rates.

Having found that a stronger yen did not trigger a disaster on the trade side, Japanese officials now appear relaxed about present exchange rates. When the dollar slipped through the 130-yen threshold to almost daily historic lows, we didn't find Kiichi Miyazawa, the finance minister, on the next flight to beg help from U.S. Treasury Secretary James Baker.

Yusuke Kashiwagi, the Bank of Tokyo chairman, said the other day: "We are not going to scream whenever the yen appreciates against the dollar." And many Japanese economists no longer flinch when they hear longer-term forecasts of a rate of 100 yen to the dollar, or even rates in the 90s.

Last week, as the yen continued to appreciate, the dollar drifted down to an all-time low of about 126 yen. That brought to mind a conversation two years ago with Akio Morita, the chairman of Sony Corp. Morita, the dollar was weakening but was still worth about 180 yen. I asked him what would happen to his business if the dollar fell by another one-third, to 120 yen. After feigning shock at the idea, he replied: "I wouldn't like to see that, but if we could stop these fluctuations up and down, I guess we could live with 120 yen."

In fact, the global economy has not enjoyed the exchange-rate stability that Mr. Morita and most businessmen feel is essential, because Mr. Baker and his counterparts in the Group of Seven countries haven't been able to coordinate their economic policies in the right way.

Nonetheless, Japan has adjusted to the reality of a strong currency. Its economy is booming, with prospects of a 4 percent growth rate in 1988, almost twice the performance now expected for the U.S. economy. Japanese companies are not only not going broke, but exports have remained extraordinarily high.

How come? Japanese manufacturers — and much the same applies to West German companies struggling with a high Deutschmark — have trimmed profits in order to maintain their share of the American market. Some Japanese production was moved to offshore locations, including the United States, to cut costs.

Although U.S. exports have benefited from a cheaper dollar, some American manufacturers have frittered away part of the exchange-rate advantage by boosting prices and profits instead of going after larger market shares. That's one reason the trade deficit is still enormous.

Meanwhile, the high yen provides extraordinary buying power for Japanese investors. Sony recently acquired CBS's record division, valued at about \$2 billion. At 180 yen to the dollar, Mr. Morita would have had to put up almost 50 percent more in yen, or

the equivalent of another \$1 billion. This is not to suggest that the Japanese buying binge is going on at a dangerous pace. Overall, Japanese investment has provided American jobs, and spurred American competitors into streamlining their operations. There should be no more concern about Japanese — or German, or English — investment in the United States than about American investment in other countries. That's part of the same desirable unrestricted investment pattern that goes hand in hand with free trade.

Politically, Japanese leaders will still insist for home consumption that the yen is too high, and hold out the hope that one day the currency will be cheaper. But until the huge U.S. trade and current-account balances are turned around — a process that is likely to take years — the yen is likely to get stronger against the dollar.

As a former chairman of the Federal Reserve Board, the late Arthur Burns, used to say, a strong currency is a sign of a strong nation. The fact is that, right now, Japan is enjoying the best of all scenarios: steady economic growth, a substantial trade surplus despite a strong yen, and the ability to make productive investments around the world.

That may not have been precisely what Mr. Baker had in mind back in September 1985, when he started the dollar on a downhill roll at the famous Group of Five session in New York. Two years later, with the dollar knocked off its perch, Americans still

have a record trade deficit, still face protectionist legislation and, with a weak dollar, now face inflationary pressures from higher-priced imports. It proves a point that both Mr. Burns and Paul Volcker, another chairman of the Fed, liked to make: When a major nation starts the process of depressing its currency, it's impossible to predict the outcome.

The Washington Post.

100, 75 AND 50 YEARS AGO

1887: Who Rules Paris?

PARIS — The question at this moment is whether a resuscitated Commune is again to govern Paris. Our Ministers are at issue. It is undeniable that if the Municipal Council succeeds in preventing the Prefect from sleeping at the Hotel de Ville, and keeps his bed for the Mayor of Paris, we shall have the Central Marée among us very quickly. The Commune will rule at the Hotel de Ville. The Commune would dispose of an annual sum of four hundred millions. The Commune of yesterday had more guns, but it had less cash.

1912: Is Singing Vulgar?

NEW YORK — There is a movement in America just now to bar vulgar songs. In pursuance of this crusade, notices were posted (Dec. 27) in all Young Men's Christian Association and Young Women's Christian Association branches throughout the country prohibiting the

playing and singing of songs such as "Hickety-coo," "Row, row, row," and "Everybody's Doing It." Mr. William Cooper, general secretary of the organization, said: "It is not so much the actual and literal meaning of the words sung that is objectionable, as it is the connotation and the idea which is obviously implied."

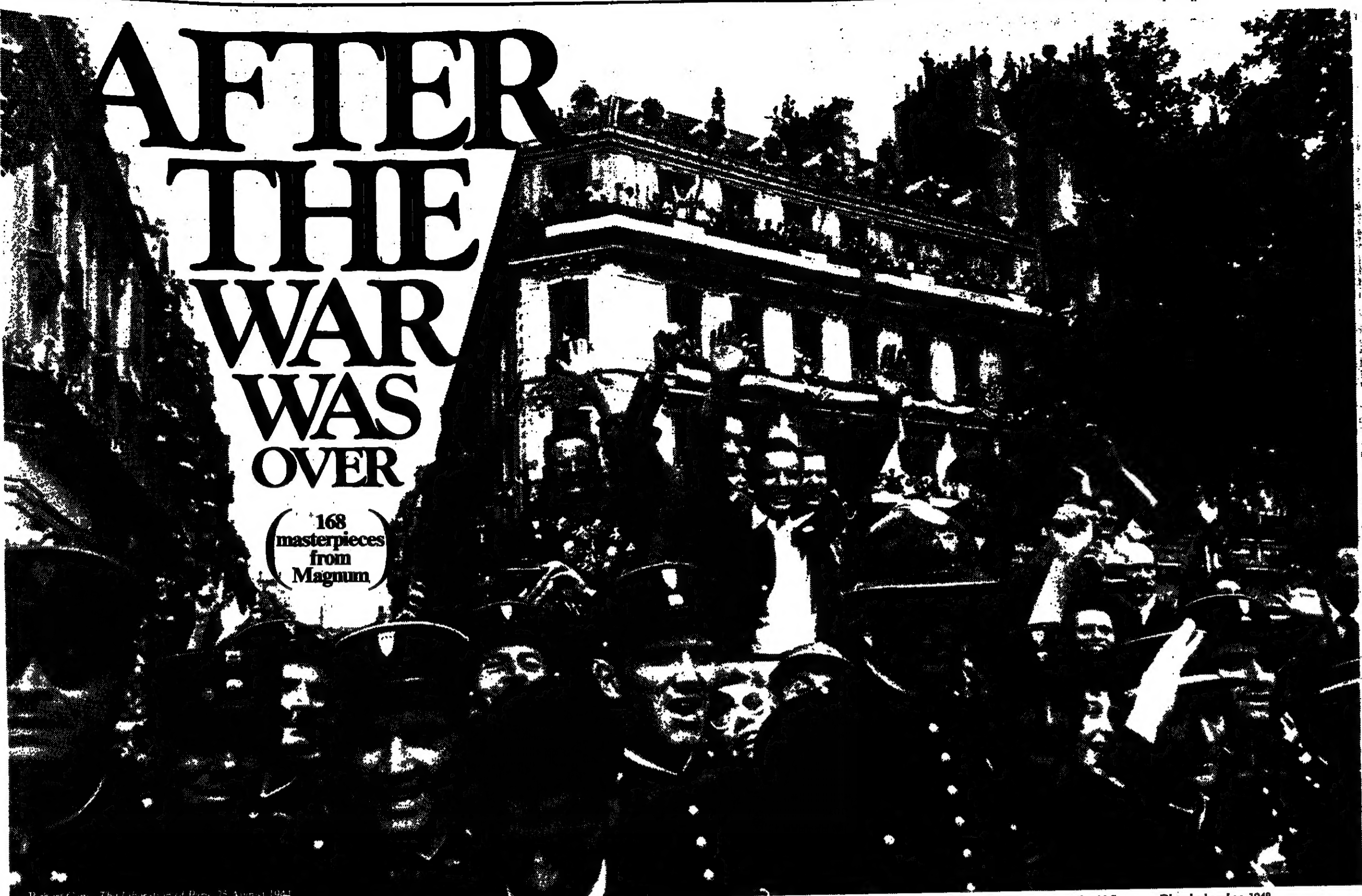
1937: Balancing a Budget

WASHINGTON — While many of his friends and all his enemies in Congress are shaking their heads and saying, "It just can't be done," President Roosevelt gave new evidence today (Dec. 27) of his determination to make the budget balance, putting pressure behind the effort if necessary. Taken together, proposed cuts in the Civilian Conservation Corps, highway construction, the work-relief program and public works would account for just about the amount which has been regarded as necessary to balance the budget if revenues continue at present level.

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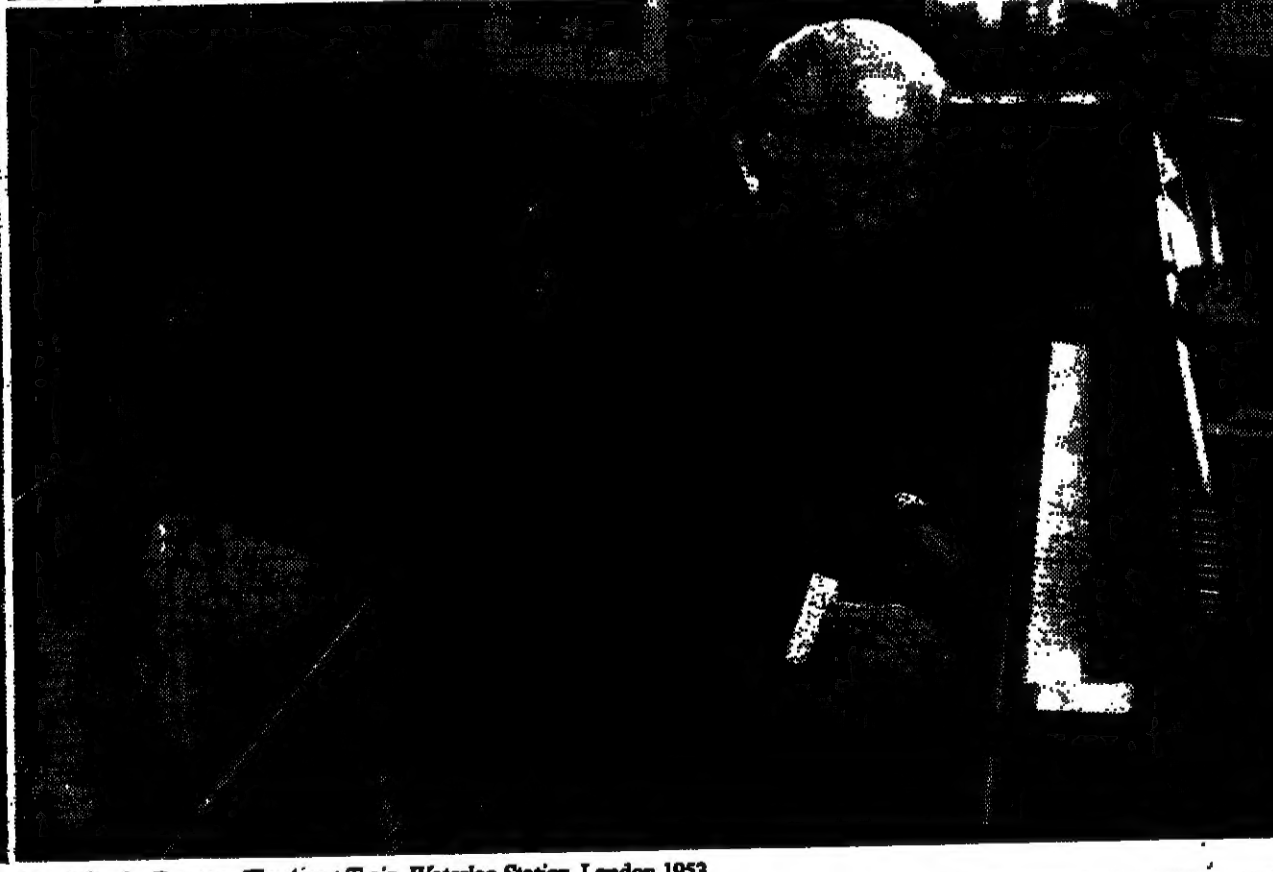
Robert Capa, *The Liberation of Paris*, 25 August 1944

David Seymour, *Arturo Toscanini*, 1954

David Seymour, *Disturbed orphan*, 1948



Werner Bischof, *In the ruins of Warsaw*, 1947



Henri Cartier-Bresson, *The Ascot Train*, Waterloo Station, London 1953



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INTERNATIONAL Herald Tribune



Environmentalists in Soviet Union Test the Limits of Citizen Activism

By Bill Keller
New York Times Service

MOSCOW — In the Armenian capital of Yerevan, angry citizens have forced local officials to promise that a chemical plant blamed for high rates of cancer and birth defects will be relocated.

In the town of Kirishi, in western Russia, a band of citizens led by a local postman shut down a plant manufacturing synthetic additives for livestock feed.

In Moscow, in the face of student protests, the authorities have abandoned plans to demolish several old buildings.

These are heady times for Russia's environmentalists. Officially and unofficially, concern has blossomed for the icy lakes percolating with industrial wastes, the historic buildings razed to make way for high-rises, the city air choked with the effluents of progress.

Even where environmentalists have failed in their immediate goals, they have pressed the limits of citizen activism, openly challenging projects that have the imprimatur of the Communist Party and government ministries. Some groups have even begun to question the wisdom of the Soviet nuclear power program.

The first successes were scored

Pravda Says Clubs Must Put Curb on 'Illegal' Activities

Reuters

MOSCOW — The Communist Party newspaper Pravda called on some of the Soviet Union's 30,000 private clubs and groups Sunday to crack down on activities such as illegal demonstrations and calls for the creation of opposition parties.

"Their activities at times take on a clearly illegal character as, without permission, they organize demonstrations and print and disseminate literature hostile to socialism," Pravda said.

There are also groups which, disguising themselves as unofficial clubs, carry out provocative work, calling for the creation of opposition parties and free trade unions," the daily added.

"Those who love to fish in troubled waters should understand that our course is not liberalization according to Western notions, but the deepening and spreading of socialist democracy," the paper said.

It was the first time that the Soviet press had attacked the clubs. The article appeared to reflect official concern that local authorities were failing to control the groups' activities.

by an influential few. When Moscow announced in August 1986 that it was dropping plans to divert two Siberian rivers for irrigation, primary credit went to Russian writers such as Vasily I. Belov and Valentin G. Rasputin, who campaigned against the project because it threatened to flood large swaths of the primeval landscape in which they find the mystic roots of Russianness. The cultural elite has undertaken similar campaigns to defend Leo Tolstoy's homestead and Siberia's Lake Baikal from industrial pollution.

But environmentalism has begun to develop a potent grass-roots following, taking on some of the character of the conservation movements of the West. Environmentalists thus find themselves in the forefront of what Mikhail S. Gorbachev, the Soviet leader, calls "democratization."

The Soviet movement reflects genuine concern about the hangover of heavy industrialization. But it has also profited from a convergence of political developments, including the worldwide outcry over the disaster in April 1986 at the Chernobyl nuclear power plant.

"They say that one of the experiences is worth more than a whole forest of instructions," Mr. Gorbachev wrote in Pravda in September. "For us, Chernobyl became such a forest."

At the same time, the grandiose projects of the Khrushchev and Brezhnev eras have fallen from favor. Such symbols of socialist gang-bro as the still-uncompleted Baikal-Amur Siberian railroad or the river diversion projects are now eschewed in favor of what Mr. Gorbachev calls "intensive" development, which means upgrading existing facilities with newer, more efficient technology.

Mr. Gorbachev has also discovered that the environment fits neatly into his foreign-policy theme of an interdependent world. He routinely mentions acid rain or the ozone layer in his speeches as an illustration of the problems the superpowers must solve together — if only they would disarm.

It may be that Mr. Gorbachev's supporters in Moscow feel that the environment is safe ground for the nurturing of the popular initiative they need to shake off the pervasive lethargy of Soviet society.

Local officials do not always see it that way. In Leningrad, the bustling hub of unofficial environmentalists, leaders of Spetsnizye (Salvation), a popular preservation group, and Delta, a tiny group organized to battle a flood-control project, have been harassed and criticized in the local press, even as the national newspaper Izvestia has written sympathetically of them.



MAN OF THE YEAR — This 1954 wedding portrait of Mikhail and Raisa Gorbachev is one of the rare family photographs that will appear in Time magazine's Man of the Year issue this week. In naming the Soviet leader as its 61st Man of the Year, Time described him as a dedicated Communist and a ruthless political opportunist who has become a 'symbol of hope for a new kind of Soviet Union.'

MOSCOW: Holiday Buying Soars

(Continued from Page 1)

the average worker. At Yakimauka, lunch for two costs a worker two days' salary.

Yet they are always crowded with Soviet and foreign patrons. At Kropotinskaya, dinner tables must sometimes be reserved a week in advance. "The people who come here are not necessarily rich," Yakimauka manager Rafael Shalmev said. "Either they are people who like good Oriental food or people who are out for something exotic. People have been waiting for decent restaurants here for a long time."

Another pastime is buying artwork, including paintings or portraits that Soviet painters have taken to selling in open air bazaars in the past year, and more expensive works by contemporary Soviet artists. Prices vary widely. During auctions held in the past few weeks by the cultural fund, however, some bid up to 135 rubles for a well-known Soviet-made ceramic, and up to 600 rubles for contemporary paintings.

For the first time since the 1917 Revolution, according to Mrs. Shcherbakova, two new types of Soviet art buyers are active on the market. One group is composed of intellectuals or professionals who

25 Die in Sri Lanka Market Shootout

The Associated Press

COLOMBO — At least 25 persons were killed in a shootout in a crowded market in Batticaloa, Sri Lanka, on Sunday morning after Tamil rebels opened fire on three Sinhalese policemen and killed one of them, residents of the eastern port city said.

Eighteen of the dead were civilians without weapons, according to a priest contacted by telephone in Batticaloa, the Reverend Pius Pathmarajah. He said that local policemen and Indian soldiers opened fire in the market after the police were attacked.

But an Indian diplomat in Colombo denied that any Indian troops were involved in the killings. The diplomat said the Indians attempted to restore peace after the policemen were attacked.

A Sri Lankan military official in Colombo said that he had received unofficial reports that 25 people were killed but that he did not know how.

The Indian troops were sent to Sri Lanka on July 30 as part of an Indian-Sri Lankan agreement designed to end fighting between the Tamil rebels and the Sinhalese-dominated government. Tamils account for about 18 percent of Sri Lanka's population of 16 million. Most Tamils are Hindus, and they say they are discriminated against by the Sinhalese majority, which is Buddhist.

The priest, reached at the residence of the Roman Catholic bishop of Batticaloa, said that he thought seven of the dead were Tamil fighters because their bodies were removed from the scene. Tamil guerrillas are known to make every effort to retrieve the bodies of their dead.

GULF: Seeking a Formula

(Continued from Page 1)

tanker, the Sea Isle City, was hit by a Soviet missile in Kuwait's harbor with no warships at hand.

But other navies do similar jobs with smaller forces. The Soviet escort operation involves fewer than a dozen ships, mainly tiny frigates, and a few minesweepers and supply ships. Yet, it protects not only three Soviet oil tankers chartered by Kuwait, but merchant ships carrying arms to Iraq.

The British Navy, too, carries out routine escorts of merchant ships flying the Union Jack.

The French have pulled their forces back farther from the war zone as France's tense relations with Iran began to relax in recent weeks.

On the U.S. aircraft carrier Midway, crewmen are speculating about making their first port call on the African coast before long, though they arrived only recently in the Arabian Sea outside the Strait of Hormuz.

For months the United States has kept a carrier outside the Gulf to provide air cover for passages through the strait. But the presence may cost more than it is worth.

U.S. Navy officers on cruisers and other smaller ships say they could defend themselves against an Iranian air attack without the carrier's jets.

And the battleship Iowa, with its 16-inch (410-millimeter) artillery and long-range cruise missiles, presumably would retaliate with devastating force against any Iranian air attack on U.S. ships.

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[A Roman Catholic Church official in Batticaloa, who declined to be identified by telephone that people were dragged out of shops in the market square and shot by the police, Reuters reported from Colombo.]

Indian soldiers on roofs of buildings overlooking the market fired intermittently at "anything that moved," Reuters quoted the church official as saying.]

ANGOLA: Archipelago of Terror

(Continued from Page 1)

called Stingers, from the United States. The guerrillas have denied shooting down the plane.

In the cities, where half of Angola's 8.8 million people now live, there is increasing social decay.

To meet draft quotas, army soldiers sometimes surround movie theaters and churches to check the draft status of young men as they leave.

Soldiers, either off duty or deserters, are increasingly using their guns for criminal profit.

A European diplomat, who lives in Luanda with his wife and two children, described an attempted holdup by "four drunken Angolan army soldiers" as the couple were driving in December.

"I instinctively hit the accelerator and ducked — they fired on us," he said, still shaken by the experience. "There were parts of a dead person in the street."

On Dec. 10, President Jose Eduardo dos Santos spoke out against "the wave of crimes that assaults the capital of the nation."

Because of insecurity in the countryside, food shortages abound in the cities. Once a food exporter, Angola now imports half of its grain needs from Europe and the United States. Children's Fund, 45 percent of Angola's children suf-

fer from malnutrition. Health standards are slipping.

Last April, Angolan officials reportedly signaled an interest in starting political talks with high UNITA officers, a European diplomat in Luanda said. The talks were to be held without the knowledge of the movement's leader, Jonas Savimbi, who is anathema to the government.

"Savimbi got wind of the contacts and had a couple of dozen people shot for conspiring to talk with the Angolan government behind his back," a diplomat said. It was impossible to confirm this account.

The United States advocates a political solution to Angola's civil war.

But the war seems to benefit UNITA's primary benefactor, South Africa. UNITA's sabotage keeps the Benguela railroad closed, which strengthens South Africa's rail monopoly in southern Africa.

UNITA's control of southeastern Angola also keeps that area free of guerrillas fighting for the independence of South-West Africa, a territory widely known as Namibia and held by South Africa in defiance of the United Nations.

In return, the Angolan government's main backers, Cuba and the Soviet Union, gain a key military presence in southern Africa.

CHINA: Returning Students Adrift

(Continued from Page 1)

highly trained students returning from abroad to find suitable jobs that has prompted a series of high-level meetings among government leaders.

At issue is not only how to employ those who have returned from abroad to find suitable jobs, but also how to keep the tens of thousands of Chinese students at U.S. and European universities from returning home because they are aware of the difficulty of finding jobs back home.

Mr. Li was called in 1967 to Inner Mongolia as the Cultural Revolution engulfed China. He was sent there as a punishment because his parents fled to Hong Kong in 1949 when communist armies took power in Beijing. He was left in the care of an uncle.

Mr. Li says he does not regret his six-year exile, which cut short a promising career as a mathematician.

"I rode horses every day and lived in a yurt," he said, rubbing his hands together, relishing his recollections. "We rounded up sheep, lassoed horses. I was a cowboy."

He had studied mathematics and some English in Beijing. Although he came to love the vast reaches of Mongolia, he also missed intellectual nourishment in a political climate that denigrated learning.

"I smuggled books to Mongolia to study English," he said. "I took a

Father Pathmarajah, a Tamil, said the trouble started when fighters of the Liberation Tigers of Tamil Eelam attacked the three Sinhalese policemen, killing one.

"The three Sinhalese policemen were going marketing armed with their T-56 rifles," he said. "They were attacked by Tamil militants and their arms were removed. Thereafter all hell broke loose."

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Then they were disappointed. "The State Economic Commission helped set up this program," said Mr. Li, referring to one of China's top planning bodies.

"But they said they weren't responsible for us getting jobs. In China, if the government doesn't help, you can't get a job."

The article in China Youth News, a rare exposé of a stunning failure of such a high-profile program, prompted concern within the senior levels of the Chinese government.

The acting prime minister, Li Peng, called a meeting of senior officials to discuss the matter and, according to China Youth News, acknowledged that vast numbers of highly trained people are mired in jobs irrelevant to their skills.

Mr. Li, who finally found a job at the China Metals and Minerals Import and Export Corp., said he spends his days studying whether the corporation should build a hotel in Mexico.

"I guess I'm using 10 percent of what I learned," Mr. Li said.

29 Die in Algerian Collision

Agence France-Press

ALGIERS — Twenty-nine persons were killed and 20 were seriously injured when a bus collided with two trucks overnight near Seif in eastern Algeria, the official news agency APS reported Sunday.

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Germany D.M.	580	41	320	35	175	29
Gr. Britain £	130	40	72	34	40	27
Greece Dr.	22,000	45	12,000	40	6,600	34
Ireland £Ir.	150	45	82	40	45	34
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Luxembourg L.Pr.	11,500	37	6,300	31	3,400	25
Netherlands Fl.	650	40	360	34	198	27
Norway (post) N.Kr.	1,800	38	990	32	540	26
— (nd. del.) N.Kr.	2,300	21	1,270	13	700	4
Portugal Esc.	22,000	52	12,000	47	6,600	42
Spain (post) Ptas.	29,000	41	16,000	35	8,800	28
— (nd. del.) Ptas.	42,000	15	21,000	15	10,500	15
Sweden (post) S.Kr.	1,800	38	990	32	540	26
— (nd. del.) S.Kr.	2,300	21	1,270	13	700	4
Switzerland S.Fr.	510	44	280	38	154	32
Rest of Europe, N. Africa, former Fr. Africa, Middle East \$	430	Varies by country	230	Varies by country	125	Varies by country
Rest of Africa, Gulf States, Asia \$	580		320		175	

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ECONOMIC SCENE

A Rare Chance to Grapple With Shrinking Growth

By STEVEN GREENHOUSE
New York Times Service

PARIS — World economic growth has been shrinking, but so gradually — and so inexorably — that economists have grown accustomed to the numbers. Yet a stark tale emerges when those numbers are added together year after year and their impact is examined.

There is an academic ring to the words "slower international economic growth." But translated into human terms, these words lose their textbook abstraction. They mean longer unemployment lines from the north of England to northern Ohio and fewer opportunities for 16-year-olds from Pasadena to Paris. In the developing world, they mean something even more painful: malnourished children, ramshackle housing, high rates of infant mortality.

The numbers are telling: In the 1950s and 1960s, the global economy grew by about 5 percent a year, sending living standards galloping forward in much of the world. In the 1970s, growth fell to slightly above 3 percent, and in the '80s it has slipped to about 2.3 percent. The outlook for the next few years is for a continuing slide.

The slowdown is having serious effects on expectations and living standards in much of the world. For the average American worker, reduced growth has meant that income after inflation has not risen since 1973. In Europe, growth has been so slow that the jobless rate has soared to more than 11 percent. For the debt-plagued nations of Africa and Latin America, this slowing trend has pushed per capita income 15 percent below the levels of 1980.

Yet, as 1988 dawns, many economists believe the world faces a rare opportunity in economic history. For the first time, they say, the leading industrial nations might have the power to reverse the slowdown, mainly because of an unusual confluence of circumstances.

'Conditions for 3 to 4 percent growth are better than at any time since the 1960s,' Marris says.

INFLATION and budget deficits have been tamed in many nations. Corporate profits are healthy and interest rates are lower than they were a few months ago. Several important technological breakthroughs, such as fiber optics and superconductors, are waiting to be spread through the world; big technological advances often push growth by creating new opportunities and jobs.

"The conditions for going back to 3 to 4 percent growth in the world economy are actually better now than they have been at any time since the 1960s," said Stephen Marris, senior economist with the Institute for International Economics in Washington.

Yet if the leading industrial nations fail to work together to help reduce trade imbalances and push growth upward, some economists warn of serious trouble. The world's fragile financial markets could take another deep plunge, they say, dragging down the world economy. If growth rates continue sliding, the trend could usher in an era of downward mobility, forcing people to work harder just to stay in the same place economically. If economic growth falls below the rate of population growth, now at 1 percent in much of the developed world, people will have to struggle to keep their living standards from falling.

Such an era of frustrated expectations could heighten tensions in the industrial world and political instability in the Third World.

"This slowdown makes it particularly difficult for the really poor countries to grow," said Angus Maddison, author of several books on world growth rates and professor of economics at the University of Groningen in the Netherlands. "Their growth is intertwined with the industrial world. They should be catching up to us and growing faster, but they are having problems because our growth has slowed."

Technically, growth is defined as the increased output in a nation's goods and services, covering everything from housing to hospital care. Many factors — from technology to economic policies — can help growth, or hinder it. After World War II, it seemed natural that growth would take off as consumer demand was unleashed and economies were rebuilt. It also seemed inevitable that growth would fall from those heady levels.

But in recent years, other, more political factors have contributed to the further slowdown. Today, some economists argue that a few nations — particularly West Germany — have been overzealous in their fight against inflation, and that, in the process, they have sacrificed global economic growth.

Many economists are clearly chagrined that leaders of the industrial world do not seem terribly alarmed about the slowdown. "The most dangerous thing is the gradual acceptance that

Carl Gewirtz is on vacation. The Eurobonds column will return next Monday.

Last Week's Markets
All figures are as of close of trading Friday

Stock Indices		Money Markets	
United States	Change	United States	
DJ Indust.	1,799.47	Discount rate	6 1/8
DJ 30	1,752.79	Federal funds rate	6 1/2
DJ 100	770.25	Prime rate	8 1/4
S & P 500	244.65	3-month T-bill	3 1/2
NASDAQ	2,251.08	6-month T-bill	3 1/2
NYSE	2,251.08	9-month T-bill	3 1/2
NYSE	2,251.08	12-month T-bill	3 1/2
NYSE	2,251.08	15-month T-bill	3 1/2
NYSE	2,251.08	18-month T-bill	3 1/2
NYSE	2,251.08	21-month T-bill	3 1/2
NYSE	2,251.08	24-month T-bill	3 1/2
NYSE	2,251.08	27-month T-bill	3 1/2
NYSE	2,251.08	30-month T-bill	3 1/2
NYSE	2,251.08	33-month T-bill	3 1/2
NYSE	2,251.08	36-month T-bill	3 1/2
NYSE	2,251.08	39-month T-bill	3 1/2
NYSE	2,251.08	42-month T-bill	3 1/2
NYSE	2,251.08	45-month T-bill	3 1/2
NYSE	2,251.08	48-month T-bill	3 1/2
NYSE	2,251.08	51-month T-bill	3 1/2
NYSE	2,251.08	54-month T-bill	3 1/2
NYSE	2,251.08	57-month T-bill	3 1/2
NYSE	2,251.08	60-month T-bill	3 1/2
NYSE	2,251.08	63-month T-bill	3 1/2
NYSE	2,251.08	66-month T-bill	3 1/2
NYSE	2,251.08	69-month T-bill	3 1/2
NYSE	2,251.08	72-month T-bill	3 1/2
NYSE	2,251.08	75-month T-bill	3 1/2
NYSE	2,251.08	78-month T-bill	3 1/2
NYSE	2,251.08	81-month T-bill	3 1/2
NYSE	2,251.08	84-month T-bill	3 1/2
NYSE	2,251.08	87-month T-bill	3 1/2
NYSE	2,251.08	90-month T-bill	3 1/2
NYSE	2,251.08	93-month T-bill	3 1/2
NYSE	2,251.08	96-month T-bill	3 1/2
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NYSE	2,251.08	120-month T-bill	3 1/2
NYSE	2,251.08	123-month T-bill	3 1/2
NYSE	2,251.08	126-month T-bill	3 1/2
NYSE	2,251.08	129-month T-bill	3 1/2
NYSE	2,251.08	132-month T-bill	3 1/2
NYSE	2,251.08	135-month T-bill	3 1/2
NYSE	2,251.08	138-month T-bill	3 1/2
NYSE	2,251.08	141-month T-bill	3 1/2
NYSE	2,251.08	144-month T-bill	3 1/2
NYSE	2,251.08	147-month T-bill	3 1/2
NYSE	2,251.08	150-month T-bill	3 1/2
NYSE	2,251.08	153-month T-bill	3 1/2
NYSE	2,251.08	156-month T-bill	3 1/2
NYSE	2,251.08	159-month T-bill	3 1/2
NYSE	2,251.08	162-month T-bill	3 1/2
NYSE	2,251.08	165-month T-bill	3 1/2
NYSE	2,251.08	168-month T-bill	3 1/2
NYSE	2,251.08	171-month T-bill	3 1/2
NYSE	2,251.08	174-month T-bill	3 1/2
NYSE	2,251.08	177-month T-bill	3 1/2
NYSE	2,251.08	180-month T-bill	3 1/2
NYSE	2,251.08	183-month T-bill	3 1/2
NYSE	2,251.08	186-month T-bill	3 1/2
NYSE	2,251.08	189-month T-bill	3 1/2
NYSE	2,251.08	192-month T-bill	3 1/2
NYSE	2,251.08	195-month T-bill	3 1/2
NYSE	2,251.08	198-month T-bill	3 1/2
NYSE	2,251.08	201-month T-bill	3 1/2
NYSE	2,251.08	204-month T-bill	3 1/2
NYSE	2,251.08	207-month T-bill	3 1/2
NYSE	2,251.08	210-month T-bill	3 1/2
NYSE	2,251.08	213-month T-bill	3 1/2
NYSE	2,251.08	216-month T-bill	3 1/2
NYSE	2,251.08	219-month T-bill	3 1/2
NYSE	2,251.08	222-month T-bill	3 1/2
NYSE	2,251.08	225-month T-bill	3 1/2
NYSE	2,251.08	228-month T-bill	3 1/2
NYSE	2,251.08	231-month T-bill	3 1/2
NYSE	2,251.08	234-month T-bill	3 1/2
NYSE	2,251.08	237-month T-bill	3 1/2
NYSE	2,251.08	240-month T-bill	3 1/2
NYSE	2,251.08	243-month T-bill	3 1/2
NYSE	2,251.08	246-month T-bill	3 1/2
NYSE	2,251.08	249-month T-bill	3 1/2
NYSE	2,251.08	252-month T-bill	3 1/2
NYSE	2,251.08	255-month T-bill	3 1/2
NYSE	2,251.08	258-month T-bill	3 1/2
NYSE	2,251.08	261-month T-bill	3 1/2
NYSE	2,251.08	264-month T-bill	3 1/2
NYSE	2,251.08	267-month T-bill	3 1/2
NYSE	2,251.08	270-month T-bill	3 1/2
NYSE	2,251.08	273-month T-bill	3 1/2
NYSE	2,251.08	276-month T-bill	3 1/2
NYSE	2,251.08	279-month T-bill	3 1/2
NYSE	2,251.08	282-month T-bill	3 1/2
NYSE	2,251.08	285-month T-bill	3 1/2
NYSE	2,251.08	288-month T-bill	3 1/2
NYSE	2,251.08	291-month T-bill	3 1/2
NYSE	2,251.08	294-month T-bill	3 1/2
NYSE	2,251.08	297-month T-bill	3 1/2
NYSE	2,251.08	300-month T-bill	3 1/2
NYSE	2,251.08	303-month T-bill	3 1/2
NYSE	2,251.08	306-month T-bill	3 1/2
NYSE	2,251.08	309-month T-bill	3 1/2
NYSE	2,251.08	312-month T-bill	3 1/2
NYSE	2,251.08	315-month T-bill	3 1/2
NYSE	2,251.08	318-month T-bill	3 1/2
NYSE	2,251.08	321-month T-bill	3 1/2
NYSE	2,251.08	324-month T-bill	3 1/2
NYSE	2,251.08	327-month T-bill	3 1/2
NYSE	2,251.08	330-month T-bill	3 1/2
NYSE	2,251.08	333-month T-bill	3 1/2
NYSE	2,251.08	336-month T-bill	3 1/2
NYSE	2,251.08	339-month T-bill	3 1/2
NYSE	2,251.08	342-month T-bill	3 1/2
NYSE	2,251.08	345-month T-bill	3 1/2
NYSE	2,251.08	348-month T-bill	3 1/2
NYSE	2,251.08	351-month T-bill	3 1/2
NYSE	2,251.08	354-month T-bill	3 1/2
NYSE	2,251.08	357-month T-bill	3 1/2
NYSE	2,251.08	360-month T-bill	3 1/2
NYSE	2,251.08	363-month T-bill	3 1/2
NYSE	2,251.08	366-month T-bill	3 1/2
NYSE	2,251.08	369-month T-bill	3 1/2
NYSE	2,251.08	372-month T-bill	3 1/2
NYSE	2,251.08	375-month T-bill	3 1/2
NYSE	2,251.08	378-month T-bill	3 1/2
NYSE	2,251.08	381-month T-bill	3 1/2
NYSE	2,251.08	384-month T-bill	3 1/2
NYSE	2,251.08	387-month T-bill	3 1/2
NYSE	2,251.08	390-month T-bill	3 1/2
NYSE	2,251.08	393-month T-bill	3 1/2
NYSE	2,251.08	396-month T-bill	3 1/2
NYSE	2,251.08	399-month T-bill	3 1/2
NYSE	2,251.08	402-month T-bill	3 1/2
NYSE	2,251.08	405-month T-bill	3 1/2
NYSE	2,251.08	408-month T-bill	3 1/2
NYSE	2,251.08	411-month T-bill	3 1/2
NYSE	2,251.08	414-month T-bill	3 1/2
NYSE	2,251.08	417-month T-bill	3 1/2
NYSE	2,251.08	420-month T-bill	3 1/2
NYSE	2,251.08	423-month T-bill	3 1/2
NYSE	2,251.08	426-month T-bill	3 1/2
NYSE	2,251.08	429-month T-bill	3 1/2
NYSE	2,251.08	432-month T-bill	3 1/2
NYSE	2,251.08	435-month T-bill	3 1/2
NYSE	2,251.08	438-month T-bill	3 1/2
NYSE	2,251.08	441-month T-bill	3 1/2
NYSE	2,251.08	444-month T-bill	3 1/2
NYSE	2,251.08	447-month T-bill	3 1/2
NYSE	2,251.08	450-month T-bill	3 1/2
NYSE	2,251.08	453-month T-bill	3 1/2
NYSE	2,251.08	456-month T-bill	3 1/2
NYSE	2,251.08	459-month T-bill	3 1/2
NYSE	2,251.08	462-month T-bill	3 1/2
NYSE	2,251.08	465-month T-bill	3 1/2
NYSE	2,251.08	468-month T-bill	3 1/2
NYSE	2,251.08	471-month T-bill	3 1/2
NYSE	2,251.08	474-month T-bill	3 1/2
NYSE	2,251.08	477-month T-bill	3 1/2
NYSE	2,251.08	480-month T-bill	3 1/2
NYSE	2,251.08	483-month T-bill	3 1/2
NYSE	2,251.08	486-month T-bill	3 1/2
NYSE	2,251.08	489-month T-bill	3 1/2
NYSE	2,251.08	492-month T-bill	3 1/2
NYSE	2,251.08	495-month T-bill	3 1/2
NYSE	2,251.08	498-month T-bill	3 1/2
NYSE	2,251.08	501-month T-bill	3 1/2
NYSE	2,251.08	504-month T-bill	3 1/2
NYSE	2,251.08	507-month T-bill	3 1/2
NYSE	2,251.08	510-month T-bill	3 1/2
NYSE	2,251.08	513-month T-bill	3 1/2
NYSE	2,251.08	516-month T-bill	3 1/2
NYSE	2,251.08	519-month T-bill	3 1/2
NYSE	2,251.08	522-month T-bill	3 1/2
NYSE	2,251.08	525-month T-bill	3 1/2
NYSE	2,251.08	528-month T-bill	3 1/2
NYSE	2,251.08	531-month T-bill	3 1/2
NYSE	2,251.08	534-month T-bill	3 1/2
NYSE	2,251.08	537-month T-bill	3 1/2
NYSE	2,251.08	540-month T-bill	3 1/2
NYSE	2,251.08	543-month T-bill	3 1/2
NYSE	2,251.08	546-month T-bill	3 1/2
NYSE	2,251.08	549-month T-bill	3 1/2
NYSE	2,251.08	552-month T-bill	3 1/2
NYSE	2,251.08	555-month T-bill	3 1/2
NYSE	2,251.08	558-month T-bill	3 1/2
NYSE	2,251.08	561-month T-bill	3 1/2
NYSE	2,251.08	564-month T-bill	3 1/2
NYSE	2,251.08	567-month T-bill	3 1/2
NYSE	2,251.08	570-month T-bill	3 1/2
NYSE	2,251.08	573-month T-bill	3 1/2
NYSE	2,251.08	576-month T-bill	3 1/2
NYSE	2,251.08	579-month T-bill	3 1/2
NYSE	2,251.08	582-month T-bill	3 1/2
NYSE	2,251.08	585-month T-bill	3 1/2
NYSE	2,251.08	588-month T-bill	3 1/2
NYSE	2,251.08	591-month T-bill	3 1/2
NYSE	2,251.08	594-month T-bill	3 1/2
NYSE	2,251.08	597-month T-bill	3 1/2
NYSE	2,251.08	600-month T-bill	3 1/2
NYSE	2,251.08	603-month T-bill	3 1/2
NYSE	2,251.08	606-month T-bill	3 1/2
NYSE	2,251.08	609-month T-bill	3 1/2
NYSE	2,251.08	612-month T-bill	3 1/2
NYSE	2,251.08	615-month T-bill	3 1/2
NYSE	2,251.08	618-month T-bill	3 1/2
NYSE	2,251.08	621-month T-bill	3 1/2
NYSE	2,251.08	624-month T-bill	3 1/2
NYSE	2,251.08	627-month T-bill	3 1/2
NYSE	2,251.08	630-month T-bill	3 1/2
NYSE	2,251.08	633-month T-bill	3 1/2
NYSE	2,251.08	636-month T-bill	3 1/2
NYSE	2,251.08	639-month T-bill	3 1/2
NYSE	2,251.08	642-month T-bill	3 1/2
NYSE	2,251.08	645-month T-bill	3 1/2
NYSE	2,251.08	648-month T-bill	3 1/2
NYSE	2,251.08	651-month T-bill	3 1/2
NYSE	2,251.08	654-month T-bill	3 1/2
NYSE	2,251.08	657-month T-bill	3 1/2
NYSE	2,251.08	660-month T-bill	3 1/2
NYSE	2,251.08	663-month T-bill	3 1/2
NYSE	2,251.08	666-month T-bill	3 1/2
NYSE	2,251.08	669-month T-bill	3 1/2
NYSE	2,251.08	672-month T-bill	3 1/2
NYSE	2,251.08	675-month T-bill	3 1/2
NYSE	2,251.08	678-month T-bill	3 1/2
NYSE	2,251.08	681-month T-bill	3 1/2
NYSE	2,251.08	684-month T-bill	3 1/2
NYSE	2,251.08	687-month T-bill	3 1/2
NYSE	2,251.08	690-month T-bill	3 1/2
NYSE	2,251.08	693-month T-bill	3 1/2
NYSE	2,251.08	696-month T-bill	3 1/2
NYSE	2,251.08	699-month T-bill	3 1/2
NYSE	2,251.08	702-month T-bill	3 1/2
NYSE	2,251.08	705-month T-bill	3 1/2
NYSE	2,251.08	708-month T-bill	3 1/2
NYSE	2,251.08	711-month T-bill	3 1/2
NYSE	2,251.08	714-month T-bill	3 1/2
NYSE	2,251.08	717-month T-bill	3 1/2
NYSE	2,251.08	720-month T-bill	3 1/2
NYSE	2,251.08	723-month T-bill	3 1/2
NYSE	2,251.08	726-month T-bill	3 1/2
NYSE	2,251.08	729-month T-bill	3 1/2
NYSE	2,251.08	732-month T-bill	3 1/2
NYSE	2,251.08	735-month T-bill	3 1/2
NYSE	2,251.08	738-month T-bill	3 1/2
NYSE	2,251.08	741-month T-bill	3 1/2
NYSE	2,251.08	744-month T-bill	3 1/2
NYSE	2,251.08	747-month T-bill	3 1/2
NYSE	2,251.08	750-month T-bill	3 1/2
NYSE	2,251.08	753-month T-bill	3 1/2
NYSE	2,251.08	756-month T-bill	3 1/2
NYSE	2,251.08	759-month T-bill	3 1/2
NYSE	2,251.08	762-month T-bill	3 1/2
NYSE	2,251.08	765-month T-bill	3 1/2
NYSE	2,251.08	768-month T-bill	3 1/2
NYSE	2,251.08	771-month T-bill	3 1/2
NYSE	2,251.08	774-month T-bill	3 1/2
NYSE	2,251.08	777-month T-bill	3 1/2
NYSE	2,251.08	780-month T-bill	3 1/2
NYSE	2,251.08	783-month T-bill	3 1/2
NYSE	2,251.08	786-month T-bill	3 1/2
NYSE	2,251.08	789-month T-bill	3 1/2
NYSE	2,251.08	792-month T-bill	3 1/2
NYSE	2,251.08	795-month T-bill	3 1/2
NYSE	2,251.08	798-month T-bill	3 1/2
NYSE	2,251.08	801-month T-bill	3 1/2
NYSE	2,251.08	804-month T-bill	3 1/2
NYSE	2,251.08	807-month T-bill	3 1/2
NYSE	2,251.08	810-month T-bill	3 1/2
NYSE	2,251.08	813-month T-bill	3 1/2
NYSE	2,251.08	816-month T-bill	3 1

Japanese Investors Report Caution on U.S. Bonds

TOKYO — Japanese institutional investors are likely to limit their purchases of U.S. Treasury securities in 1988 because of continued concern about foreign exchange losses, investment managers say.

However, one factor that would make Treasury bonds attractive is the strong likelihood of a decline in U.S. interest rates next year, they said, mainly because of political pressures to keep the U.S. economy growing before the November presidential election. With bond prices moving inversely to changes in interest rates, any lowering of rates would boost the value of bonds.

Even so, Japanese investors in Treasuries are likely to incur more currency losses from their holdings because of the yen's surge against the dollar in the financial year that will end in March 1988, according to sources in the life insurance industry, a major source of investment funds.

The precise amount of these holdings is not easily determined, but early in 1987, the amount of Japanese funds invested in U.S. government securities and corporate bonds was estimated at about \$100 billion.

Japanese life insurers will suffer book losses on their investments in U.S. securities if the dollar drops

below 127 yen by the end of the fiscal year, the bond managers said. The yen is currently trading at around 126 to the dollar, having risen by 27 percent from 160 yen at the beginning of the year.

Finance Ministry guidelines say life insurers should write off such losses on foreign bonds if exchange rates at the end of the year vary more than 15 percent from the date of purchase.

"We will continue to be cautious on U.S. securities investments as long as we haven't decided that the yen," said Katsuyuki Ichikawa, manager at the bond investment and management department of

Daiwa Investment Trust Management Co.

"We can't be bullish next year, too," Mr. Ichikawa said. "We are seriously looking for a new place to put our funds, but no other market is big enough to absorb them," he added.

"The dollar could stop falling at 120 yen per dollar, but nobody knows," he said.

The U.S. economy could weaken in 1988 as a delayed result of the Oct. 19 stock price plunge, he added. With slower demand for investment funds likely to push interest rates lower, bond prices should rise.

But others disagreed. "I doubt if U.S. bond prices will rise in 1988, to say nothing of the dollar's probable weakness," said Osamu Koizumi, assistant manager at the international investment department of Yamauchi Trust & Banking Co.

Cheaper oil could improve U.S. trade figures in coming months, which would give the dollar some support, he said, yet an easier U.S. monetary policy could still cause further dollar declines.

"We will continue to avoid U.S. securities next year," Mr. Koizumi said.

"Japanese investors will look more closely at the U.S. economic indicators in coming months than ever, because they are keen to gauge the real strength of the U.S. economy," said a foreign bond manager at a leading securities house.

Japanese investors needed to be assured that the dollar is starting to rebound before resuming investment, he said, although they believe it is near the bottom.

"If they see a hint that the U.S. economy is weak, it will be no surprise if they resume investing in U.S. securities in 1988," he said.

SAS: Preparing for Less Friendly Skies

Jan Carlzon, president of Scandinavian Airlines System, returned to Stockholm last week from London after losing out to British Airways PLC in a bid for a stake in the other major British airline, British Caledonian Group PLC. Amid moves to deregulate European air travel, he discussed the pressures for such mergers with the IHT's Juris Kaza.

Q. You have just come from London where you were not successful in starting a relationship between SAS and British Caledonian. British Airways bought Caledonian instead. What are your comments?

A. It's embarrassing to see how a country like Britain and an airline like British Airways, which have been preaching freer competition and more liberal aviation policies, are protecting a monopoly in a situation where they are themselves threatened on their home ground. To me, it shows that free competition is a good thing as long as it does not touch your own situation.

Q. You were also talking to Sabena, the Belgian airline, on an integration plan last summer. Why is it so important for SAS to find a European partner?

A. Well, because I foresee we will end up with four or five big carriers taking care of international traffic to and from Europe in the future. And here, I'm talking about the 1990s. Our goal is to be "one of five in '95." I cannot see a situation where we could have every country's airline flying all the intercontinental routes in tough competition with the Asian and American airlines. They are more competitive and bigger in size.

Q. Do you see a certain deadline by which you want to have SAS, so to say, "married" to another airline?

A. At the latest, of course, 1992, which is a critical date for the European Community, when it eliminates all internal trade barriers. Certainly, we would like to have it a lot

earlier. The more we wait, the more difficult will be the situation in selecting airlines one really wants to cooperate with. There will be other linkages taking place.

Q. You mentioned Asian and North American airlines. What makes them such a competitive challenge to you and the others in Europe?

A. For the Asian airlines, the cost situation is the greatest advantage for them. If you look

at Thai International, for example, 11 percent of its total cost is personnel. A normal European airline has something around 30 percent. And the Asians already have a high quality of service. If there was totally free competition for routes and pricing, they would be very tough to beat. The American airlines have been pressed by deregulation in the United States to be more efficient.

Q. What about the liberalization going on in Europe?

A. Yes, it's there, but we are against this step-by-step liberalization. That kind of liberalization favors the airlines in the center of Europe and is a disadvantage to the airlines in the periphery of Europe. If it were up to us, we would want deregulation overnight, because it would give us, one of the most efficient airlines in Europe, a chance to compete. It would also give Europe a chance to compete, because it would put pressure on management, unions and governments to run aviation at a lower cost.

Q. It is said that Europe, which still is a collection of sovereign countries and national interests, is different from the United States. A. From a passenger point of view, that's nonsense, because I don't care if I fly across one border or another to catch the best flight and get the best service. That is why we think that Scandinavia, with 17 million inhabitants, is not big enough alone to support one of the

five future airlines. We have to find alliances in Europe to widen our foreign market base.

Q. What could be done now, to further liberalize European aviation?

A. Look at the difficulties we had in making an offer to Caledonian. We couldn't bid for 100 percent while British Airways could because they were British. We could only bid for less than 25 percent and only if we had one other British investor with a bigger stake than SAS, and so forth. These kinds of rules, and they are the international rule for aviation today, have to be changed if the politicians in Europe really want to have a liberalization of policies.

Q. Let's get back to your role as head of SAS. You came in and turned the airline around. That's done. Is the new phase of finding the right partner more difficult?

A. It is a critical and difficult situation. We are one of the most profitable and efficient airlines in Europe, but the competition is increasing from year to year. We are facing quite a different situation and we want to position ourselves in advance to handle that, to turn risks into possibilities. But the basics for SAS have not changed. We have realized that we are in a service business, that we are in a competitive business, and that the environment is changing. That was the main thing I gave to SAS, this commercial and business thinking, and from that come all these developments and steps we are trying to take.

Q. Is the transformation of SAS something, then, that could make you an attractive partner because of these management skills and experiences?

A. My experience in the last months, and not the least in the negotiations just ended, is that we do not have to "sell" ourselves to any airline anymore. It is easy to see that we are an attractive partner.

Q. Do you think that in the early part of next year you will be talking to another potential partner?

A. We sure will.

Path of Spending Is Still Guesswork

By Michael Quint
New York Times Service

NEW YORK — Ten weeks after the steep decline in stock prices, credit market participants are still guessing about the likely effects on consumer spending, the economy and interest rates.

While many economists estimate that the steep stock decline will

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exacerbate the slowdown in consumer spending that was already under way, the only statement they can make with confidence is that answers about consumer behavior will be clearer early next year than they are today.

Retail sales for December, to be published Jan. 14, are not expected to show much of an increase over November's gain of 0.2 percent.

After steep declines in retail sales during September and October, a modest gain of only 0.5 percent or so in December is likely to reinforce expectations that the slowdown in consumer spending will soon lead to cutbacks in produc-

tion and a noticeable decline in overall economic growth.

Donald Fine, chief market analyst at Chase Manhattan Bank, said that the bond market had still not fully digested the implications of the automobile rebates and price-cutting at retail stores that have supported sales recently.

Besides helping to dampen increases in consumer prices, he noted that price-cutting was robbing sales from early next year. The result, he said, is a greater probability of a slowdown in the economy in the first quarter that would be the catalyst for lower interest rates.

Recent activity in the bond market suggests that others also expect lower rates in the future. At Friday's closing level of 99 17/32 to yield 8.92 percent, the Treasury's 8 1/2 percent issue due in 2017 was up more than 5 points from its price of Dec. 11, when it yielded 9.45 percent.

Economists noted that changes in federal tax laws beginning next year might have some impact on the public's willingness to buy.

Jason Benderly, an economist at Goldman, Sachs & Co., estimated

that if the Treasury adjusts the withholding tax schedules to give back all of the over-withholding of 1987 as well as the 1988 decline in tax rates, about \$24 billion would be added to consumers' pocket-books next year. If the new withholding tables allow just for the lower tax rates in 1988, only about \$8 billion will be added.

In any case, the changes are relatively small compared with the approximately \$3 trillion base of personal income. A net change of \$10 billion in tax refunds for example, represents a change of slightly more than 0.3 percent and would be dwarfed by changes in employment within the economy.

U.S. Consumer Rates

Year	Rate
1987	7.95%
1988	8.92%
1989	9.45%
1990	9.98%
1991	10.51%
1992	11.04%
1993	11.57%
1994	12.10%
1995	12.63%
1996	13.16%
1997	13.69%
1998	14.22%
1999	14.75%
2000	15.28%
2001	15.81%
2002	16.34%
2003	16.87%
2004	17.40%
2005	17.93%
2006	18.46%
2007	18.99%
2008	19.52%
2009	20.05%
2010	20.58%
2011	21.11%
2012	21.64%
2013	22.17%
2014	22.70%
2015	23.23%
2016	23.76%
2017	24.29%
2018	24.82%
2019	25.35%
2020	25.88%
2021	26.41%
2022	26.94%
2023	27.47%
2024	28.00%
2025	28.53%
2026	29.06%
2027	29.59%
2028	30.12%
2029	30.65%
2030	31.18%

GROWTH: Addressing the Shrinking World Economy

(Continued from first finance page)

if all we have is 2 percent growth, that's O.K., without thinking that for many people real earnings will remain basically unchanged throughout their lifetimes," said Jean Baneth, director of the World Bank's international economics department. "That will be very different from the societies we built in the 1950s and 1960s, where there were expectations of improvement."

Although some economists say the 25-year period after World War

achieving faster growth," Mr. Maris said. "Is we have to correct this incredible disequilibrium, and it will be very difficult to do that while avoiding a recession."

Mr. Maris was one of 33 prominent economists from 13 countries who signed a statement earlier this month calling on Washington, Bonn and Tokyo to take more decisive actions to reduce trade imbalances. The economists said Washington should try to cut domestic demand and imports further, and must go beyond its recent budget deficit reductions. It must, they say, cut last year's \$148 billion deficit by an additional \$40 billion a year for several years.

The economists also urged West Germany to raise imports and accelerate and expand tax cuts scheduled for 1990. And they urged Japan to push domestic demand growth above 4 percent a year.

Although most economists agree on what these three nations must do, they say improved world economic growth could become a hostage to domestic political constraints. Bonn and, to a lesser degree, Tokyo, fret that greater stimulus will mean increased inflation and angry voters. In an election year, Washington worries about how voters will react to higher taxes or more budget cuts.

"Coordination means each would have to do what's good for the world economy, but they don't want to do it," said Lester Thurow, an economist and dean of the Sloan School of Management at the Massachusetts Institute of Technology. The quadrupling of oil prices in 1973 is often called the turning point, when world economic growth started to slow. But other forces were already at work, including higher taxes for social welfare programs, increased government regulation, higher inflation, and exchange-rate volatility. These, in turn, contributed to a declining rate of business investment that had long served as a powerful fly-wheel that kept growth humming even when consumer spending slowed.

Sluggish investment hurt productivity, making it tougher to achieve economic growth without inflation. During the 1970s, governments began an about-face, trying to slow growth in order to stamp out inflation.

Then came the second oil price shock in 1979. Creeping inflation began galloping; fighting it became a priority worldwide. Governments slammed the brakes on growth — in ways that ranged from curbing spending to raising interest rates.

"In the 1960s, governments were willing to push against capacity more than they are today, and there was a kind of optimism about the inflationary consequences, a feeling that inflation could be limited or that it could be lived with," said Georges de Menil, an economics professor at the Ecole des Hautes Etudes en Sciences Sociales in Paris. "That feeling has changed pro-

foundly throughout the industrial world. That is one reason why growth is not faster than it is today."

But according to Mr. de Menil, today's slower growth — provided growth continues — might be preferable to the heady growth of previous decades because it is less inflationary and therefore more sustainable.

Nevertheless, many economists see several underlying problems with the slow-growth, anti-inflation approach. In particular, they say, the fight against inflation is causing economic growth to fall short of its potential.

"Another problem that many economists see with the anti-inflation fight is that Europe and Japan have taken one approach and the United States another. After the 1979 oil shock, Europe and Japan adopted policies of fiscal consolidation, slashing budget deficits and cutting the ratio of their budgets to their gross national product. Meanwhile, in Washington, the Federal Reserve Board jacked up interest rates to help whip inflation while the Reagan administration pushed through huge tax cuts that produced gargantuan budget deficits. Taken together, these disparate approaches sent the dollar soaring and generated a huge U.S. trade deficit and enormous German and Japanese trade surpluses.

"These policy mess-ups create much more skepticism about the

"This slowdown makes it difficult for the really poor countries to grow. They should be catching up to us."

— Angus Maddison, economist and author

power of government to do anything good about the economy and about long-term growth in demand," said Andrea Baltho, an Oxford University economist who has written extensively on world growth.

Many economists say that reconciling the disparate approaches to fighting inflation, thereby reducing trade imbalances, would help lead to faster growth. Resolving the Third World debt problem would also be a boon to growth, they say.

"Brazil, Argentina, a lot of these countries used to be very dynamic economies," said Richard Portes, director of the Centre for Economic Policy Research in London. "But because everyone is worried about having to bail out a few banks, we have not yet taken the bold steps needed to bring the less developed countries back to being dynamic contributors to world growth."

EASTERN: Assets Are a Leading Issue in Union Talks

(Continued from first finance page)

return for a \$100 million note. Some analysts have said the system was worth much more than that. Eastern now pays Texas Air \$10 million a month for the use of the system.

Eastern has also sold planes to other airlines and to Continental.

Some union leaders have said that the sale and transfer of assets has made Texas Air vulnerable to lawsuits from employee shareholders who contend that the actions reduce the value of their holdings. A number of suits have been

brought against Texas Air and its officials by unions on behalf of their members.

Union leaders such as Charles Bryan, the president of District 100 of the International Association of Machinists and Aerospace Workers, which represents about 13,000 of Eastern's 38,000 workers, hope that the courts will block further asset sales and possibly overturn the entire acquisition of Eastern by Texas Air.

The unions have already had some victories, including a judge's

decision that Eastern could not transfer some machinists to an independent subsidiary, since doing so would jeopardize the protection they have under their labor contract.

For his part, Mr. Bakes stressed that neither he nor Mr. Lorenzo wanted to sell any assets. "We like to run airlines and not to dismantle them," he said.

But he left little doubt that the unions did not agree to significant changes in labor costs, he said. Mr. Lorenzo would sell parts of the carrier.

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